



ACCA Advanced Audit & Assurance (AAA)

(INT)

AAA Platinum Questions Pack

(DEMO)

2025

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Platinum area 1: Audit Committee

How is this area commonly tested in the AAA exam?

Please focus on the practical aspects of audit committee, such as

- benefits and costs of setting up audit committee, or
- factors to consider to outsource internal audit function, or

Examining team usually expects answers to be fully related to the scenario.

There is one question in this area:

- Exam rehearsal question 1 – Mac Co (outsourcing internal audit, fraud, audit committee)

Exam rehearsal question 1 – Mac Co (outsourcing internal audit, fraud, audit committee)	
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Exhibits 1. Notes of meeting held with Lindsay Montana 2. Legal action and audit committee	Background Mac Co is a large, private company, whose business activity is events management, involving the organisation of conferences, meetings and celebratory events for companies. Mac Co was founded 10 years ago by Danny Hudson and his sister, Stella, who still own the majority of the company's shares. The company has grown rapidly and now employs more than 150 staff in 20 offices.
Requirements Requirements (22 marks)	You are a manager in the business advisory department of Flack & Co. Your firm has just been engaged to provide the internal audit service to Mac Co. In your initial conversation with Danny and Stella, you discovered that currently there is a small internal audit team, under the supervision of Lindsay Montana, a recently qualified accountant. Before heading up the internal audit department, Lindsay was a junior finance manager of the company. The members of the internal audit team will be reassigned to roles in the finance department once your firm has commenced the provision of the internal audit service.
Response options Word Processor	Mac Co is not an existing client of your firm, and to gain further understanding of the company, you held a meeting with Lindsay Montana. Notes from this meeting are shown below.
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Requirement (marks)
(a) Evaluate the benefits specific to Mac Co of outsourcing its internal audit function. (6 marks)
(b) Explain the potential impacts on the external audit of Mac Co if the decision is taken to outsource its internal audit function. (4 marks)
(c) Recommend procedures that could be used by your firm to quantify the financial loss suffered by Mac Co as a result of the fraud. (4 marks)
(d) <ul style="list-style-type: none"> (i) Compare the responsibilities of the external auditor and of management in relation to the prevention and detection of fraud; and (4 marks) (ii) Assess the benefits and drawbacks for Mac Co in establishing an audit committee. (4 marks)

Exhibit 1 Notes of meeting held with Lindsay Montana
The internal audit team has three employees, including Lindsay, who reports to the finance director. The other two internal auditors are currently studying for their professional examinations. The team was set up two years ago, and initially focused on introducing financial controls across all of Mac Co's offices. Nine months ago the finance director instructed the team to focus their attention on introducing operational controls in order to achieve cost savings due to a cash flow problem being suffered by the company. The team does not have time to perform much testing of financial or operational controls.

In the course of her work, Lindsay finds many instances of management policies not being adhered to, and the managers of each location are generally reluctant to introduce controls as they want to avoid bureaucracy and paperwork. As a result, Lindsay's recommendations are often ignored.

Three weeks ago, Lindsay discovered a fraud operating at one of the offices while reviewing the procedures relating to the approval of new suppliers and payments made to suppliers. The fraud involved an account manager authorising the payment of invoices received from fictitious suppliers, with payment actually being made into the account manager's personal bank account. Lindsay reported the account manager to the finance director, and the manager was immediately removed from office. This situation has highlighted to Danny and Stella that something needs to be done to improve controls within their organisation.

 **Exhibit 2 Legal action and audit committee**



Danny and Stella are considering taking legal action against Mac Co's external audit provider, Manhattan & Co, because their audit procedures did not reveal the fraud.

Danny and Stella are deciding whether to set up an audit committee. Under the regulatory framework in which it operates, Mac Co is not required to have an audit committee, but a disclosure note explaining whether an audit committee has been established is required in the annual report.

Suggested Answer:

Word Processor

Paragraph

(a) Evaluate the benefits specific to Mac Co of outsourcing its internal audit function

Tutorial note:
To evaluate benefits or drawbacks of an issue, students need to demonstrate their business sense. The following steps could be followed:

- **Step 1:** What – could be a sub-heading
- **Step 2:** Describe the benefit or drawbacks – with common sense.
- **Step 3:** Why this is a benefit or drawback – it helps or harms...
- **Step 4:** Case information – relate to the case.

Quality (Step 1 - What)
The service provider will have good quality staff with experience of financial reporting, auditing techniques and commercial and business awareness (Step 2 – Description). *This will enhance the credibility and efficiency of the work they are performing (Step 3 - Why).* Lindsay, being only recently qualified, may have limited experience, and the more junior members of her team who are studying for their professional examinations may not be technically competent in all of the areas that the internal audit team are responsible for (Step 4 – Case information).

Authority (Step 1 - What)
If the recommendations come from an independent source, which has authority and is supported by senior management, they are more likely to be followed (Step 2 – Description and Step 3 - Why). Lindsay comments that many of her recommendations are ignored. This may be because she is seen to lack status and authority within the company, as she was a junior manager before heading the internal audit function, and because she is recently qualified (Step 4 – Case information).

Resources (Step 1 - What)
Outsourcing the function will allow an immediate increase in the resource base (Step 2 – Description). *This means that more work can be quickly performed ie the investigation into fraud can commence immediately (Step 3 - Why).* It appears that Mac Ltd's internal audit function is currently under-resourced, as there are only three people to provide internal audit for a growing company, with multiple locations (Step 4 – Case information).

Focus/range of work (Step 1 - What)
Outsourcing the function will provide as many staff as necessary (cost permitting) to cover a range of activities (Step 2 – Description). *The team will be better focused and be able to prioritise objectives from an independent point of view (Step 3 - Why).* From Lindsay's comments, it seems that the team currently lacks a consistent focus. They are directed by the finance director, who has changed the focus from financial reporting controls to operational controls, and it seems the team is too small to do both (Step 4 – Case information).

Reallocation of staff (Step 1 - What)

Internal controls are more likely to become embedded in the organisation as the finance function will have more knowledge and experience of developing and implementing controls (Step 2 – Description). *The finance team may benefit from extra resources if the company continues to grow (Step 3 - Why).* Lindsay and the rest of her team can be reallocated to other parts of the business (Step 4 – Case information).

Tutorial note:

Credit will be awarded for discussion of other, relevant benefits, e.g. Flack & Co employees may be more technically up-to-date, can bring new technology to the internal audit function, a stronger internal audit function may serve as a preventative and detective control to make frauds less likely in the future.

(b) Explain the potential impacts on the external audit of Mac Co if the decision is taken to outsource its internal audit function.

Tutorial note:

To explain the impact, the following steps could be followed to demonstrate business sense.

- **Step 1:** What – could be a sub-heading.
- **Step 2:** Describe your point.
- **Step 3:** The impact of this, ie so what...
- **Step 4:** Case information – relate to the case.

Reliance and fee (Step 1 - What)

Manhattan & Co should consider the extent of reliance they may wish to place on the work of Flack & Co, and it is likely that more reliance will be placed on internal audit than previously (Step 2 - Description). *This should improve external audit efficiency. The fees charged by Manhattan & Co could be affected (reduced) by this (Step 3 – The impact).* As Mac Ltd is short of cash, the fee could be an important consideration for the company (Step 4 – Case information).

Time to implement recommendations (Step 1 - What)

The internal auditors may suggest changes to accounting systems and controls (Step 2 - Description). *When these changes occur, the external audit firm will need to document and evaluate the new procedures, which may be time consuming. (Alternative point: It could be argued that new systems and controls could reduce the reliance placed on them.) (Step 3 – The impact).* As Mac Ltd is short of cash, the potential fee increase by this could be an important consideration for the company (Step 4 – Case information).

Control environment (Step 1 - What)

The control environment is likely to be improved over time (Step 2 - Description). *This means that Manhattan & Co should reassess their audit strategy, which will probably mean a reduction in the extent of substantive procedures that need to be carried out (Step 3 – The impact).* This may mean a potential reduction in audit fee paid to Manhattan & Co (Step 4 – Case information).

Working papers (Step 1 - What)

Manhattan & Co will need to consider access to records and working papers held by Flack & Co (Step 2 - Description), as information relevant to the external audit, especially in relation to the testing of controls are likely to be held by the service provider (Step 3 – The impact). Therefore, Manhattan & Co needs to consider to perform additional tests of control to

ensure conclusions about control systems made by Flack & Co are reasonable and this potentially affect their fees charged (Step 4 – Case information).

Tutorial note:

The external audit providers, Manhattan & Co should assess the impact of the outsourcing arrangement by reference to ISA 610 (UK and Ireland) Using the work of internal auditors, and ISA 402 Audit considerations relating to an entity using a service organisation

(c) Recommend procedures that could be used by your firm to quantify the financial loss suffered by Mac Co as a result of the fraud.

A review of the procedure for adding to the approved suppliers list, to help identify how many suppliers have been added by the account manager.

A review of the payments approved by the manager, and a comparison of the suppliers paid on his approval to the list of approved suppliers. This will help to identify any unapproved suppliers paid, and the amounts paid to them.

Computer-assisted audit techniques could be used to identify any suppliers with the same bank account details as the account manager, and then to trace payments made to them.

Review the completeness of supplier statements compared to a list of suppliers paid, as fictitious suppliers will not have supplied a statement.

For each supplier, an invoice received could be selected, and details traced back to a signed order/delivery note/service or time sheet for services provided. If none of these can be found, the invoice and supplier is likely to be fictitious (does not exist).

A review of the terms of any insurance cover that Mac Ltd has taken out to cover instances of fraud. Any potential reimbursement will reduce the loss suffered by the company.

A discussion with management and the gardai and solicitors (assuming management has reported the fraud) to ascertain if any of the amount stolen could be reimbursed by the account manager, in the event that he is prosecuted successfully.

(d)

Tutorial note:

For comparison question, students are expected to answer Differences and Similarities. For each paragraph, it is important to include:

- **Step 1:** Your description
- **Step 2:** Explain the detail (with key words such as this means that...; or for example...; however...; this is because...)

(i) Responsibilities of the external auditor and of management in relation to the detection of fraud

Primary responsibility for management

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance and management of an entity (Tutorial note: per ISA 240).

For example, by establishing a sound system of controls, management should reduce opportunities for fraud to take place, and establish a culture which should persuade individuals not to commit fraud due to the likelihood of detection and punishment.

Recommendations by auditors

The external auditor may provide recommendations and advice on the improvement of internal controls. *However, it is not their responsibility to put the recommendations into practice.*

Auditors focus on ROMM

The auditor's responsibility is to consider the risk of material misstatement in the financial statements due to fraud. *This means that the auditor is more focused on fraud that impacts on the accounts than on operational fraud which may not cause a material misstatement.*

Materiality

A fraud with an immaterial impact may not be detected by audit procedures. *This is because external auditor will use sampling techniques based on a level of materiality, not all balances and transactions will be subject to detailed testing, so small frauds are not likely to be detected. This is possibly why the fraud relating to supplier payments has remained undetected (Tutorial note – with application to the case).*

Similarity

A similarity is that both management and the external auditor should assess the strength of controls in place within the entity, and in doing so, evaluate the likelihood of a fraud occurring. *This means that auditor will perform this evaluation while planning the audit while management should continually be monitoring the strength of the entity's control environment and systems.*

(ii) Assess the benefits and drawbacks for Mac Co in establishing an audit committee

Tutorial note:

Steps are the same with part (a) requirement.

- **Step 1:** What – could be a sub-heading
- **Step 2:** Describe the benefit or drawbacks – with common sense.
- **Step 3:** Why this is a benefit or drawback – it helps or harms...
- **Step 4:** Case information – relate to the case.

Benefits:

FS trusts (Step 1 - What)

Improved credibility of the financial statements should result from the various activities of the audit committee (Step 2 - Description). *For example, audit committee will perform unbiased review of the financial statements, and discuss significant issues with the external auditors (Step 3 - Why). Currently, frauds took place in Mac Co whilst setting up an audit committee may reveal those frauds in advance which build more trusts in FS (Step 4 – Case information).*

Stronger control environment (Step 1 - What)

A stronger control environment will be encouraged by the presence and actions of an audit committee (Step 2 - Description). *A stronger emphasis on controls will help the smooth running of the business and hopefully reduce business risks, as well as opportunity for fraud*

(Step 3 - Why). The fact that the internal audit function would report to the committee, rather than to the finance director, as is currently the situation, strengthens their independence within the company, and should add weight to their recommendations, which currently are sometimes ignored (Step 4 – Case information).

Raising finance (Step 1 - What)

This improved credibility and control environment could be important for a large and growing private company like Mac Ltd (Step 2 - Description) to raise further finance (Step 3 - Why). Mac Ltd appears to be short of cash, and in the event of raising finance, it will be easier and possibly cheaper to raise finance if there is a perception of good governance created by the presence of an audit committee (Step 4 – Case information).

Competence (Step 1 - What)

The audit committee should also bring valuable skills, knowledge and expertise to the company as members from the audit committee are all non-executive directors from various backgrounds (Step 2 - Description). In a family-owned and managed company like Mac Ltd, this source of external experience could prove invaluable. Also it will enable the executive directors to devote their attention to management (Step 3 – Why and Step 4 – Case information).

Drawbacks:

Members recruitment (Step 1 - What)

It can be difficult to recruit appropriate members to the committee (Step 2 - Description). In practice, there are few people with the relevant skills and experience who are also independent of the company, who have the time to devote to their role as a member of the committee (Step 3 - Why). This could be a problem for Mac Ltd, whose business activities are quite specialised. But, with appropriate advertising and by offering a reasonable fee, it should be possible to recruit some non-executive directors with experience in the hospitality business (Step 4 – Case information).

Fees (Step 1 - What)

The expense for recruiting members in the audit committee could be an issue (Step 2 - Description). The audit committee members should expect to receive a fee commensurate with their level of experience and knowledge, so the fees may be significant (Step 3 - Why). This could be an issue for Mac Ltd due to its cash flow problem (Step 4 – Case information).

Conclusion

It's recommended that the internal audit function should be outsourced, and an audit committee should be set up.

Platinum area 2: ISA 240 Fraud

How is this area commonly tested in the AAA exam?

The examining team usually expects students to understand:

- The presumption that sales revenue is a highly risky area.
- Auditors' responsibilities when fraud is identified or suspected.

There is one question in this area:

- Exam rehearsal question 1 – York Co (ISA 240 Concepts)

Exam rehearsal question 1 – York Co (ISA 240 Concepts)	
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Exhibits 1. Requirement from ISA 240	According to ISA 240 The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements. The requirement is included in the exhibit 1.
Requirements Requirements (7 marks)	
Response options Word Processor	
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Requirement (7 marks)	
Discuss why the auditor should presume that there are risks of fraud in revenue recognition and why ISA 240 requires specific auditor responses in relation to the risks identified. (7 marks)	

Exhibit 1. 1. Requirement from ISA 240	
‘When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.’	

Suggested Answer:

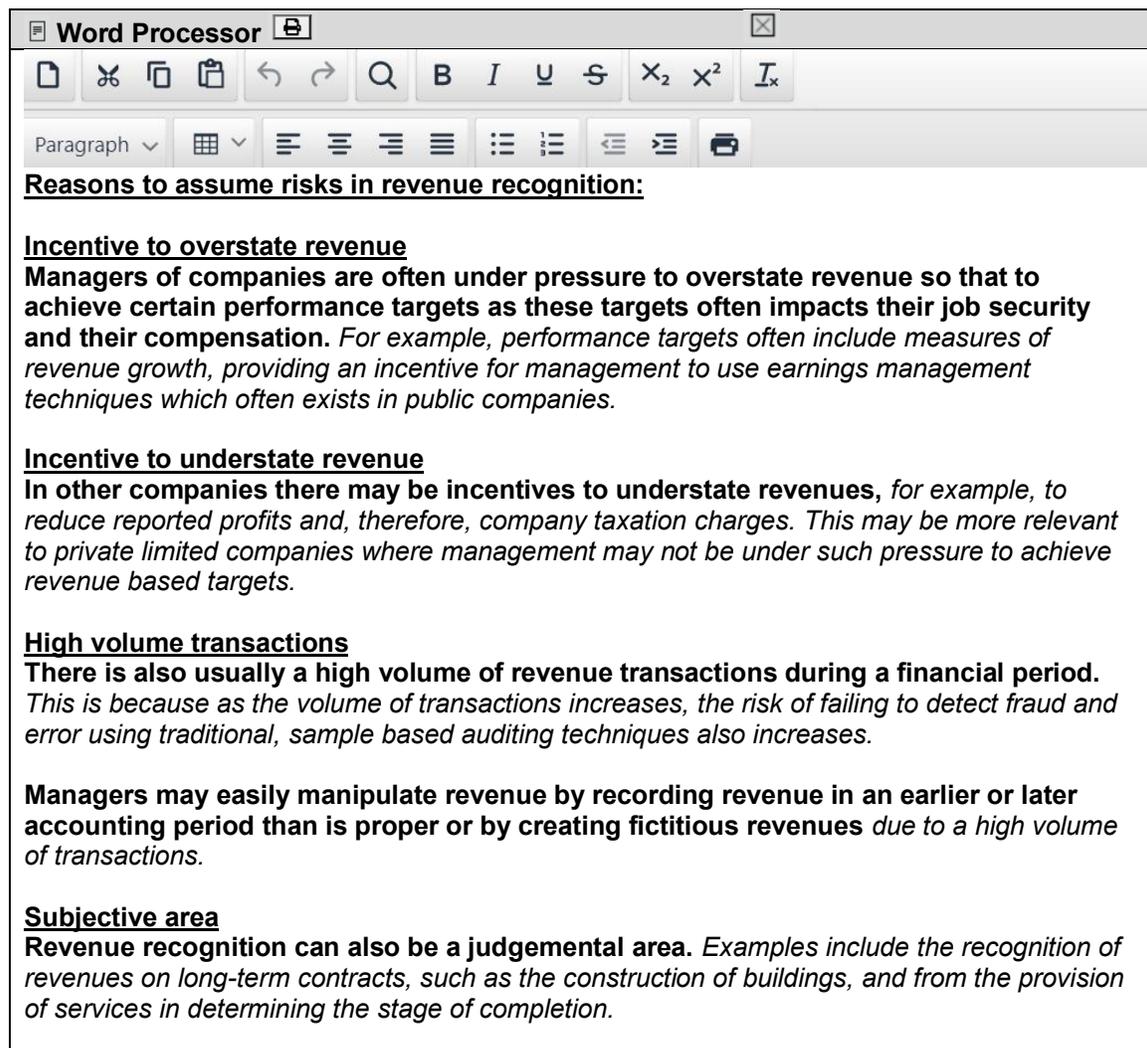
Tutorial note:

For **discussive** question, examiner expects students to answer the question from both positive and negative perspectives.

Steps for such questions:

- **Step 1:** Your description
- **Step 2:** Explain the detail (with key words such as this means that...; or for example...; however...; this is because...)

There are only 7 marks for this question, and therefore, only 4 points are required. Please make sure your answer is split into two sub-requirements per the question.



Word Processor

Paragraph ▾

Reasons to assume risks in revenue recognition:

Incentive to overstate revenue
Managers of companies are often under pressure to overstate revenue so that to achieve certain performance targets as these targets often impacts their job security and their compensation. *For example, performance targets often include measures of revenue growth, providing an incentive for management to use earnings management techniques which often exists in public companies.*

Incentive to understate revenue
In other companies there may be incentives to understate revenues, for example, to reduce reported profits and, therefore, company taxation charges. This may be more relevant to private limited companies where management may not be under such pressure to achieve revenue based targets.

High volume transactions
There is also usually a high volume of revenue transactions during a financial period. *This is because as the volume of transactions increases, the risk of failing to detect fraud and error using traditional, sample based auditing techniques also increases.*

Managers may easily manipulate revenue by recording revenue in an earlier or later accounting period than is proper or by creating fictitious revenues due to a high volume of transactions.

Subjective area
Revenue recognition can also be a judgemental area. *Examples include the recognition of revenues on long-term contracts, such as the construction of buildings, and from the provision of services in determining the stage of completion.*

Complex area

Revenue recognition can also be a complex issue for sales with multiple elements, and this

The rest of the content is shown in the official course.