



Think Ahead

## **Advanced Audit and Assurance – International (AAA – INT)**

March/June 2021 (20/21 Syllabus)

### **Get to know your exam**

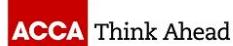
*These graphical representations are intended to give an indication of past exam requirements and associated question content.*

*Please note that you will not be able to complete answers within these documents and in isolation they will not sufficiently prepare you for your exam.*

*We encourage you to visit the ACCA Practice Platform in order to attempt up to date practice exams within the computer-based exam environment. Further instructions on how to use the platform will be provided before you attempt the exam.*

## Introduction screen

AAA-INT March/June 2021 (20/21 syllabus)



### Introduction

This exam contains past exam content and indicates how the live exam will be structured and assessed, the likely layout and style of questions and the range of response options that could be presented to you in each question's workspace.

You should use this exam to become familiar with the workspace and the features and functionality contained within the live exam.

The past content exam is reflective of the live exam experience but has some differences:

- The live exam will be timed, however there is no time limit in the past content exam.
- If you want to sit this exam in exam-style conditions you should answer the questions presented within a **3 hour 15 minute time period**.
- Once you have started this past content exam, you are able to leave at any time by closing the browser window. When you return, anything you have entered into the response options will be saved and you can continue sitting the exam.
- In the live exam your answers entered into the workspace response options will be expert-marked. At the end of this exam, you should use the solution material provided to assess your performance.
- You will be able to access solution material at the end of this exam when using the Self Marking resources which include a Marking Guide and Sample Answer for each question. If you wish to access these without completing the questions, click on **End Exam** on the Item Review Screen and navigate to the Marking tab on the Dashboard to Self-Mark.

## Exam summary screen

AAA-INT March/June 2021 (20/21 syllabus)

### Exam Summary

**Time allowed:** This exam is not timed.

This exam is divided into two sections:

#### Section A

- One question worth 50 marks.
- 50 marks in total.

#### Section B

- Two questions, each worth 25 marks.
- 50 marks in total.

All questions are compulsory.

Select **Next** to start your exam.

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## Sample exam questions

### Section A

AAA-INT March/June 2021 (20/21 syllabus)

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#### Section A

This section of the exam contains **one question**.

This question is worth **50 marks** and is compulsory.

This exam section is worth **50 marks** in total.

#### Important:

In your live exam, you should:

- Indicate which requirement each of your responses relate to so that this is clear for markers.
- Show all notes/workings that you want the marker to see within your responses. Remember, any notes/workings made on the Scratch Pad or on your workings paper will not be marked.

Select **Next** to continue.

## Scenario 1 – Initial screen

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**Exhibits**

- 1. Partner's email
- 2. Background information
- 3. Notes from meeting
- 4. Key performance indicators
- 5. Notes from phone call

**Requirement**

- Requirement (50 marks)

**Response Options**

- Briefing notes
- Spreadsheet

It is 1 July 20X5. You are a manager in the audit department of Chief & Co, a firm of Chartered Certified Accountants. You are assigned to the audit of Pale Co which has a financial year ending 30 September 20X5.

Pale Co manages timber plantations, its core business being the management of timber plantations and the production and sale of a range of timber products. It is not currently a listed entity.

The following **exhibits**, available on the left-hand side of the screen, provide information relevant to the question:

1. Partner's email – an email which you have received from Harvey Rebus, the audit engagement partner.
2. Background information – information relevant to audit planning.
3. Notes from meeting – summary of business developments discussed at a recent meeting between the chief finance officer (CFO) and the audit engagement partner.
4. Key performance indicators – a summary of financial and non-financial information.
5. Notes from phone call – a summary of issues raised by the CFO during a discussion with the audit engagement partner.

This information should be used to answer the question **requirement** within your chosen **response option(s)**.

## Scenario 1: requirements

④ Requirement (50 marks) 



**Respond to the instructions in the email from the audit engagement partner.**

Note: The split of the mark allocation is shown in Exhibit 1 – Partner's email.

(46 marks)

Professional marks will be awarded for the presentation and logical flow of the briefing notes and the clarity of the explanations provided.

(4 marks)

## Scenario 1: Exhibits

### Exhibit 1: Partner's email

1. Partner's email

To: Audit manager  
From: Harvey Rebus, Audit engagement partner  
Subject: Audit planning for Pale Co  
Date: 1 July 20X5

Hello

I have provided you with some information which you should use to help you in planning the audit of Pale Co for the financial year ending 30 September 20X5.

As you know, Pale Co is a new audit client of our firm. I hope you are looking forward to working on this interesting new client which is the first timber company we have secured as an audit client. You should also be aware that the management team is planning for Pale Co to achieve a stock market listing within the next two years.

I require you to prepare briefing notes for my own use, in which you:

(a) Evaluate the business risks to be considered in planning the audit of Pale Co. (10 marks)

(b) Evaluate the audit risks to be considered in planning the audit of Pale Co. (20 marks)

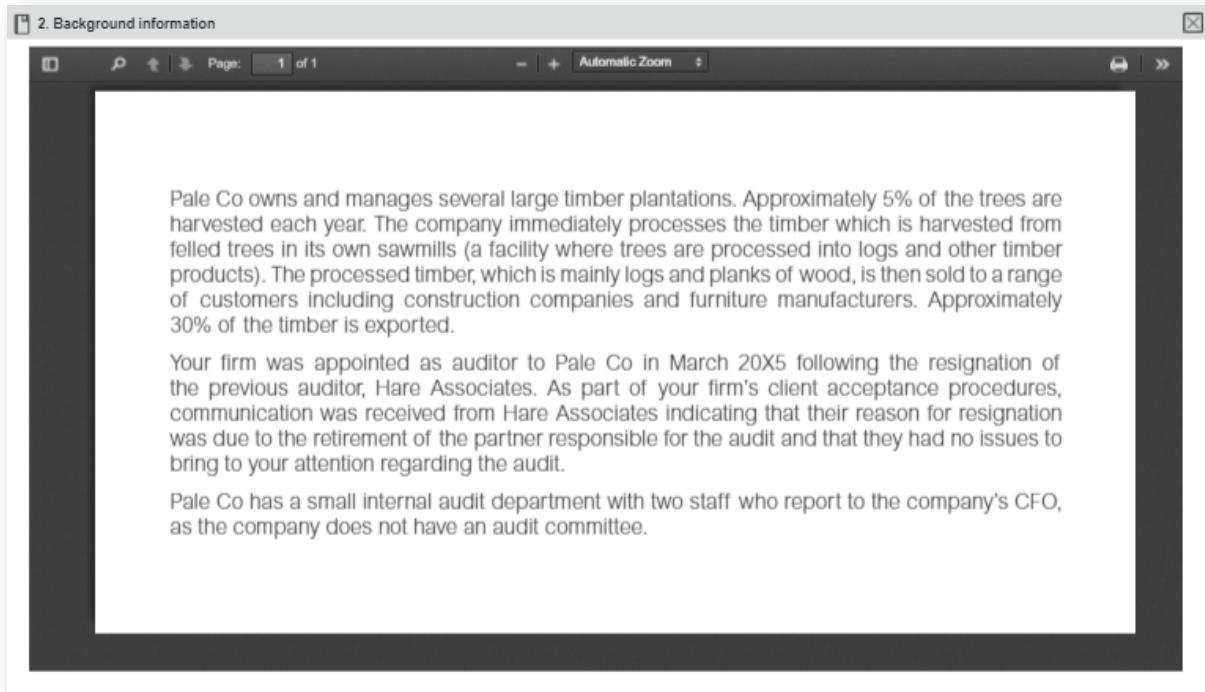
**Note:** In relation to the company's timber plantation asset (referred to in Exhibit 4) **you are only required to consider audit risks relating to changes in fair value**. Any other relevant audit risks relating to the timber plantation asset will be dealt with separately, later in the planning stage of the audit.

(c) Design the audit procedures to be performed in relation to the change in fair value of the timber plantation asset caused by the recent storms. Your procedures should include those relating to the evaluation of the expert appointed by management and the work they have performed. (6 marks)

(d) Using Exhibit 5, explain the ethical issues and other audit planning implications which arise in relation to the phone call from the company's chief finance officer, Mark York. (10 marks)

Thank you

## Exhibit 2: Background information



2. Background information

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Pale Co owns and manages several large timber plantations. Approximately 5% of the trees are harvested each year. The company immediately processes the timber which is harvested from felled trees in its own sawmills (a facility where trees are processed into logs and other timber products). The processed timber, which is mainly logs and planks of wood, is then sold to a range of customers including construction companies and furniture manufacturers. Approximately 30% of the timber is exported.

Your firm was appointed as auditor to Pale Co in March 20X5 following the resignation of the previous auditor, Hare Associates. As part of your firm's client acceptance procedures, communication was received from Hare Associates indicating that their reason for resignation was due to the retirement of the partner responsible for the audit and that they had no issues to bring to your attention regarding the audit.

Pale Co has a small internal audit department with two staff who report to the company's CFO, as the company does not have an audit committee.

## Exhibit 3: Notes from meeting

3. Notes from meeting

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Meeting date: 10 June 20X5

Attendees: Harvey Rebus, audit engagement partner  
Mark York, chief finance officer (CFO)

**Accounting policies**

Mark York confirms that Pale Co applies the requirements of IAS® 41 *Agriculture* as follows:

- Standing timber, which means trees which are growing in the timber plantation prior to being felled, are biological assets, measured at fair value less costs to sell. The change in fair value less costs to sell is included in profit or loss for the period in which it arises.
- Felled trees are agricultural produce which are measured at fair value less costs to sell at the point of harvest. Immediately after felling, trees are processed, so that the value of felled trees awaiting processing is minimal at any point in time.
- Processed timber such as logs are measured in accordance with IAS 2 *Inventories*.

A technical expert from the audit firm has confirmed that the accounting policies outlined above appear appropriate in the context of Pale Co's activities.

**International expansion**

Pale Co's operations are currently all based in its home jurisdiction. However, the board has recently approved the acquisition of several large areas of tropical rainforest in Farland, a remote developing country. The expansion will allow the company to process new types of timber for which there is significant demand from luxury furniture manufacturers. The acquisition of the areas of the rainforest will cost \$25 million and the purchase is due to take place in August 20X5. The cost of \$25 million is equivalent to the fair value of the rainforest. Farland uses the same currency as Pale Co so the expansion is not creating any foreign exchange risk exposure to the company.

The purchase is being funded through a share issue to existing and new shareholders, who are mainly family members of the Pale family, who established the company 20 years ago. A share issue was the only option for funding the international expansion as the company is at the limit of its bank borrowing agreement.

An international development agency has agreed to provide a grant of \$20 million to assist Pale Co in its Farland expansion, on condition that the expansion represents sustainable and ethical business practice. The grant is provided specifically for training the local workforce and building accommodation for the workforce in a town near to the rainforest.

The grant is due to be received in September 20X5 and relevant expenditure will commence in November 20X5. Mark York is planning to recognise half of the amount received as income in this year's financial statements, on the basis that it "will cover some of management's expenses in planning the international expansion".

**Gold Standard**

The company is proud to have recently been awarded an industry 'Gold Standard' accreditation for its sustainable timber management. To achieve the Gold Standard, which denotes the highest possible level of sustainable timber management and ethical business practice, the company must adhere to a number of strict standards. This includes maintaining the biodiversity of the timber plantation, ensuring that rare species of tree are not harvested, and that animal habitats within the timber plantation are preserved. To maintain the Gold Standard accreditation, one condition is that at least 80% of timber sold must be harvested according to the strict standards set by industry regulators. The Gold Standard applies to all of the company's activities, including the Farland expansion.

## Exhibit 3: Notes from meeting (continued)

### Contract with Royal Co

The company's revenue has increased this year, largely due to it signing a significant contract with a new customer, Royal Co. The contract was signed on the basis of Pale Co receiving the Gold Standard accreditation for its timber.

### Legal case

A group of employees has recently commenced legal action against the company, claiming that breaches of health and safety guidelines regularly take place. The company has made some redundancies this year, which has put pressure on the remaining staff to work harder in order to maintain productivity; the employees are alleging that this has caused an increase in the number of accidents at work, some of which have resulted in fatalities. The company's management and legal advisors believe that the legal claim, which amounts to \$19 million, is unjustified and will not be successful. Mark York does not intend to recognise a provision for the claim or make any disclosure in the financial statements in relation to this issue as it is at such an early stage in the legal proceedings.

### Use of expert – change in fair value due to recent storms

In the last month, several storms caused damage to some areas of timber plantation. An independent expert has been appointment by management to determine the extent of damage caused and to quantify any financial implications, including determination of the change in fair value of the standing trees which have been damaged by the storm. The expert's report indicates a large number of trees have been completely destroyed, and many have been badly damaged. Based on the expert's report, management has determined that a reduction in fair value of \$70.5 million should be recognised in respect of the timber plantation asset recognised in the statement of financial position.

## Exhibit 4: Key performance indicators

4. Key performance indicators

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The information in the table below will be published as part of the Annual Report, in a section titled 'Key results for the year', which forms part of management's commentary on the company's performance. The financial information is before recognising the change in fair value of the timber plantation caused by the recent storm, and also before accounting for the government grant.

	Projected 30 September 20X5	Actual 30 September 20X4	% change
	\$ million	\$ million	
<b>Financial key performance indicators:</b>			
Revenue	42.5	40.3	+5.5%
Operating profit	22.0	21.0	+4.8%
Profit before tax	6.5	5.0	+30%
<b>Social and environmental key performance indicators:</b>			
% timber harvested in line with 'Gold Standard'	82%	85%	
Number of employees	1,300	1,420	
Total staff days lost due to accidents at work	78	65	

You are also provided with the following information relating to balances which are extracted from management accounts as at 30 June 20X5:

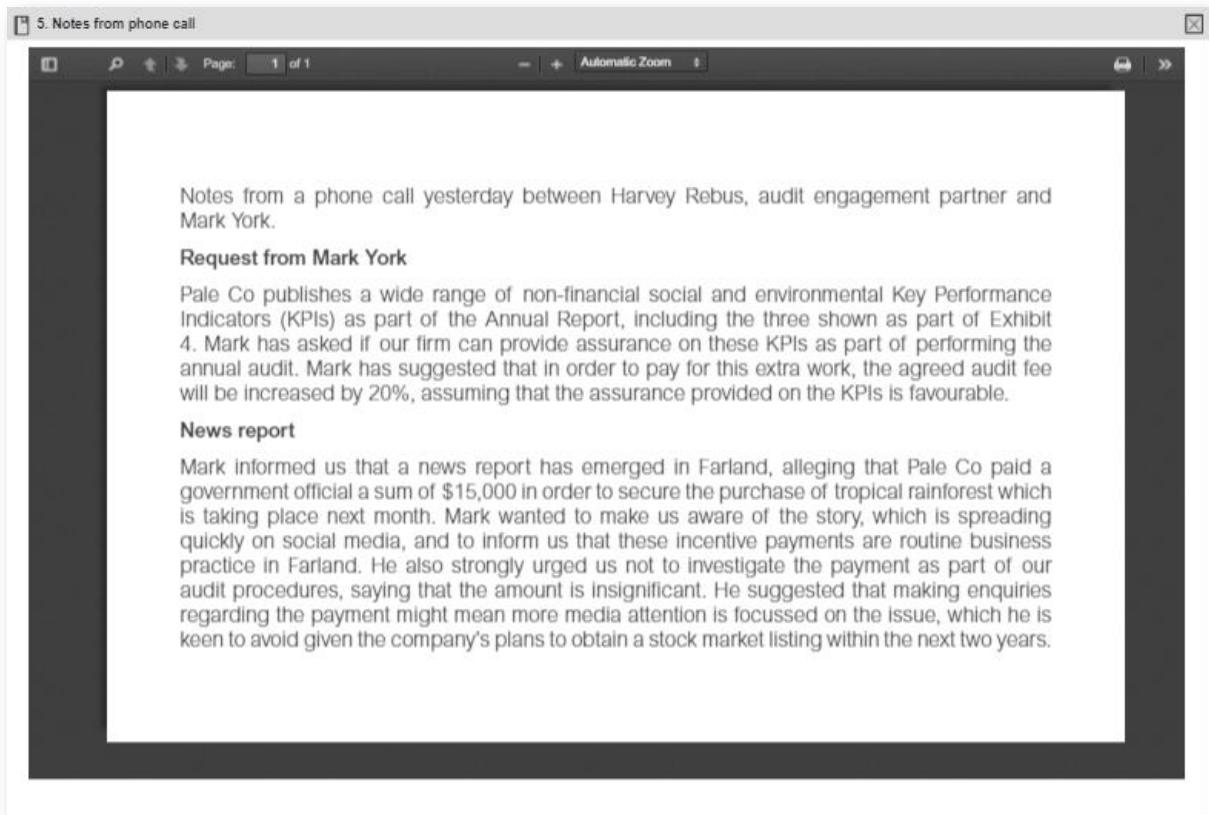
**Total assets** – \$550 million (20X4 – \$545 million)

**Timber plantation** – \$500 million (20X4 – \$490 million) – this amount, relating to standing timber, is before accounting for any change in value caused by the recent storms referred to in Exhibit 3.

**Inventory** – \$15.4 million (20X4 – \$9.2 million) – the increased level of inventory is explained by management as follows: "In the last two months, industrial action at the country's ports meant no containers of processed timber could be shipped to our export customers. The missed export sales so far amount to about \$2.1 million. We continued to harvest and process timber during this time, leading to an increased level of inventory. The industrial action is ongoing."

**Cash** – \$4.5 million (20X4 – \$6.8 million) – cash levels are depleted this year due to inflationary pressures and demands for higher wages from our employees, which we have met.

## Exhibit 5: Notes from phone call



5. Notes from phone call

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Notes from a phone call yesterday between Harvey Rebus, audit engagement partner and Mark York.

**Request from Mark York**

Pale Co publishes a wide range of non-financial social and environmental Key Performance Indicators (KPIs) as part of the Annual Report, including the three shown as part of Exhibit 4. Mark has asked if our firm can provide assurance on these KPIs as part of performing the annual audit. Mark has suggested that in order to pay for this extra work, the agreed audit fee will be increased by 20%, assuming that the assurance provided on the KPIs is favourable.

**News report**

Mark informed us that a news report has emerged in Farland, alleging that Pale Co paid a government official a sum of \$15,000 in order to secure the purchase of tropical rainforest which is taking place next month. Mark wanted to make us aware of the story, which is spreading quickly on social media, and to inform us that these incentive payments are routine business practice in Farland. He also strongly urged us not to investigate the payment as part of our audit procedures, saying that the amount is insignificant. He suggested that making enquiries regarding the payment might mean more media attention is focussed on the issue, which he is keen to avoid given the company's plans to obtain a stock market listing within the next two years.

## Section B

AAA-INT March/June 2021 (20/21 syllabus)

Flag for Review

### Section B

This section of the exam contains **two questions**.

Each question is worth **25 marks** and is compulsory.

This exam section is worth **50 marks** in total.

#### Important:

In your live exam, you should:

- Indicate which requirement each of your responses relate to so that this is clear for markers.
- Show all notes/workings that you want the marker to see within your responses. Remember, any notes/workings made on the Scratch Pad or on your workings paper will not be marked.

Select **Next** to continue.

## Scenario 2

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**Exhibits**

1. Cameron Co

2. Marsden Co

3. Dean Co

4. Horner Co

It is 1 July 20X5. You are an audit manager in James & Co, a firm of Chartered Certified Accountants. Your role includes performing post-issuance audit quality reviews, and you are currently reviewing the audit of the Bond Group (the Group), which had a financial year ended 31 January 20X5, and in respect of which an unmodified audit opinion was issued last month. The Group supplies computer components, specialising in graphics cards.

You are reviewing the Group audit file as well as the audit files for four of the Group's subsidiaries. All four of these subsidiaries are significant components of the Group and have a financial year end of 31 January 20X5. Each subsidiary's audit opinion was also unmodified.

You have been provided with the following **exhibits**, which provide information about the Bond Group and the points you have identified for each subsidiary in the group:

1. Cameron Co – points you have identified from your review of the information provided by the component auditor.  
2. Marsden Co – points you have identified from your review of the work carried out by a local office of James & Co.  
3. Dean Co – points you have identified during your audit quality review.  
4. Horner Co – points you have identified during your audit quality review.

This information should be used to answer the question **requirements** within the **response option** provided.

## Scenario 2: requirements

② Requirements (25 marks) 



In relation to the matters described in Exhibits 1 to 4, comment on the quality of the planning and performance of the Group audit and the audit of the components of the Group, discussing the quality control and other professional issues raised in respect of:

(a) Cameron Co

(8 marks)

(b) Marsden Co

(5 marks)

(c) Dean Co

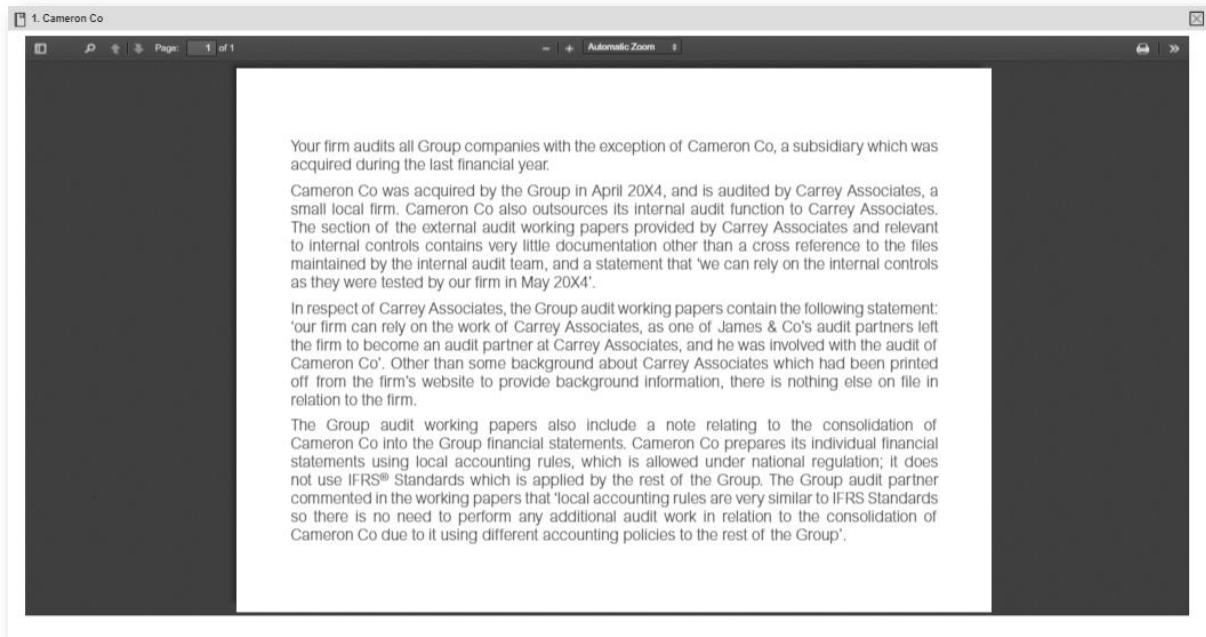
(5 marks)

(d) Horner Co

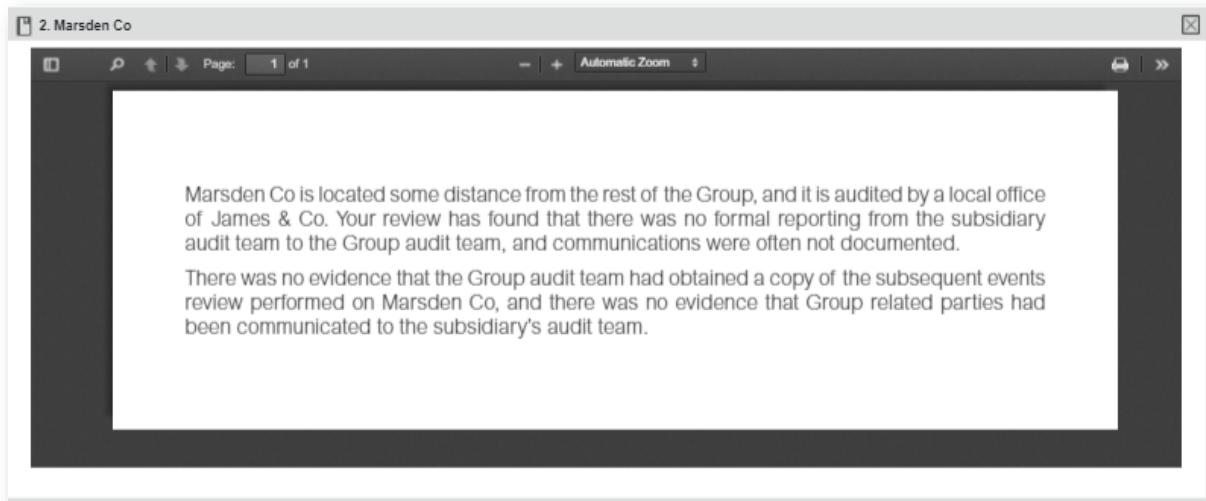
(7 marks)

## Scenario 2: exhibits

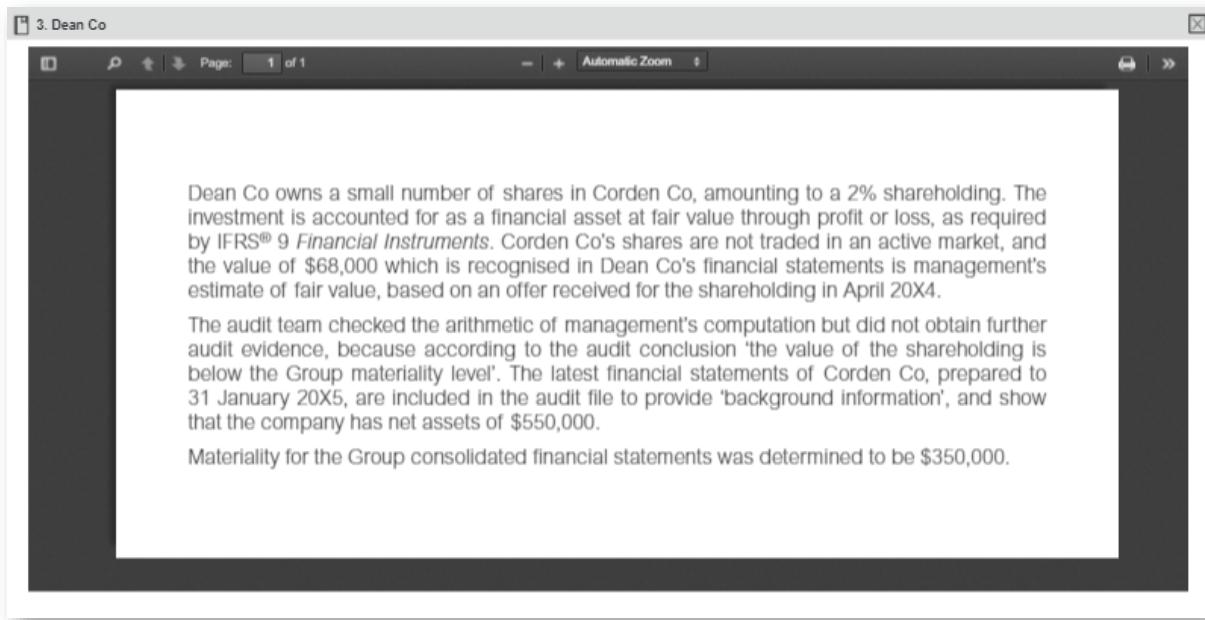
### Exhibit 1: Cameron Co



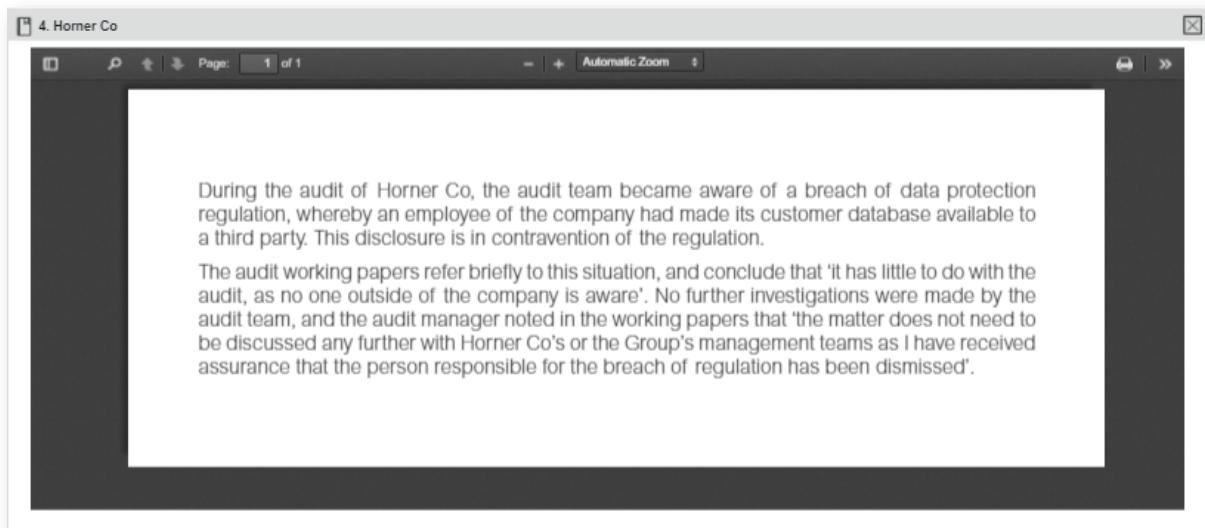
### Exhibit 2: Marsden Co



## Exhibit 3: Dean Co



## Exhibit 4: Horner Co



## Scenario 3

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**Exhibits**

1. Audit completion review

2. Update and draft auditor's report

**Requirements**

Requirement a (20 marks)

Requirement b (5 marks)

**Response Options**

Word Processor

It is 1 July 20X5. You are a manager in Beth & Co, a firm of Chartered Certified Accountants, responsible for the audit of Matty Co for the year ended 31 March 20X5.

The following **exhibits**, available on the left-hand side of the screen, provide information relevant to the question:

1. Audit completion review – provides details of matters which have been brought to your attention by the audit supervisor.
2. Update and draft auditor's report – provides an update on the outcome of initial discussions with the client and details of the auditor's report which has now been drafted by the audit supervisor.

This information should be used to answer the question **requirements** within the **response option** provided.

## Scenario 3 requirements

### Requirement a (20 marks)

(a) Using the information in Exhibit 1, comment on the matters to be considered and explain the audit evidence you would expect to find during your review of the audit working papers on 1 July 20X5, in relation to the issues identified.

Note: The following mark allocation is provided as guidance for this question:

- (i) Railway operating licence and going concern (7 marks)
- (ii) Purchased customer list (8 marks)
- (iii) Chairman's statement (5 marks)

(20 marks)

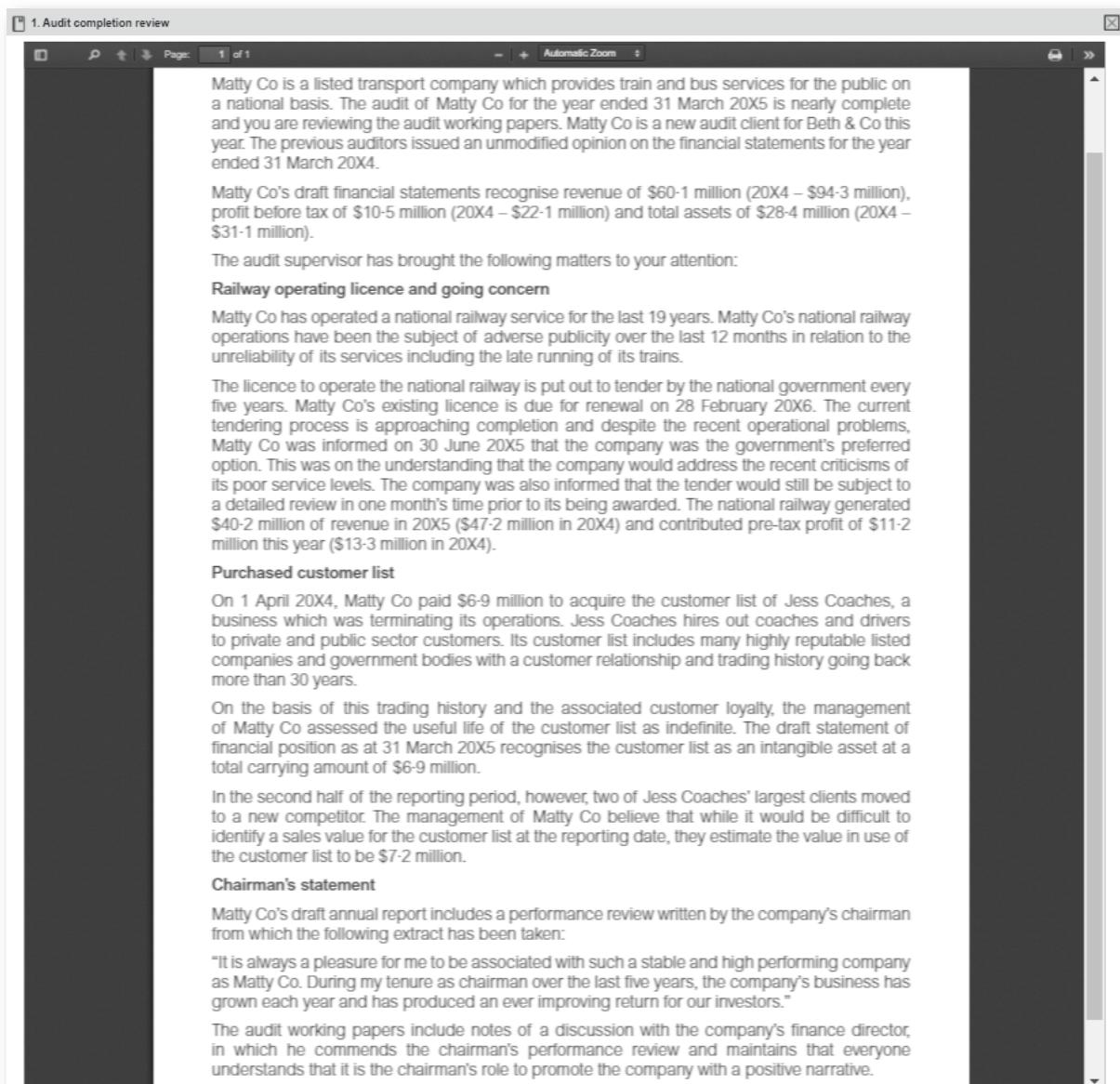
### Requirement b (5 marks)

(b) With reference to Exhibit 2, and assuming that no further adjustments will be made to the financial statements in relation to the railway operating licence or the chairman's statement, evaluate the appropriateness of the draft auditor's report produced by the audit supervisor.

(5 marks)

## Scenario 3 exhibits

### Exhibit 1: Audit completion review



1. Audit completion review

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Matty Co is a listed transport company which provides train and bus services for the public on a national basis. The audit of Matty Co for the year ended 31 March 20X5 is nearly complete and you are reviewing the audit working papers. Matty Co is a new audit client for Beth & Co this year. The previous auditors issued an unmodified opinion on the financial statements for the year ended 31 March 20X4.

Matty Co's draft financial statements recognise revenue of \$60.1 million (20X4 – \$94.3 million), profit before tax of \$10.5 million (20X4 – \$22.1 million) and total assets of \$28.4 million (20X4 – \$31.1 million).

The audit supervisor has brought the following matters to your attention:

**Railway operating licence and going concern**

Matty Co has operated a national railway service for the last 19 years. Matty Co's national railway operations have been the subject of adverse publicity over the last 12 months in relation to the unreliability of its services including the late running of its trains.

The licence to operate the national railway is put out to tender by the national government every five years. Matty Co's existing licence is due for renewal on 28 February 20X6. The current tendering process is approaching completion and despite the recent operational problems, Matty Co was informed on 30 June 20X5 that the company was the government's preferred option. This was on the understanding that the company would address the recent criticisms of its poor service levels. The company was also informed that the tender would still be subject to a detailed review in one month's time prior to its being awarded. The national railway generated \$40.2 million of revenue in 20X5 (\$47.2 million in 20X4) and contributed pre-tax profit of \$11.2 million this year (\$13.3 million in 20X4).

**Purchased customer list**

On 1 April 20X4, Matty Co paid \$6.9 million to acquire the customer list of Jess Coaches, a business which was terminating its operations. Jess Coaches hires out coaches and drivers to private and public sector customers. Its customer list includes many highly reputable listed companies and government bodies with a customer relationship and trading history going back more than 30 years.

On the basis of this trading history and the associated customer loyalty, the management of Matty Co assessed the useful life of the customer list as indefinite. The draft statement of financial position as at 31 March 20X5 recognises the customer list as an intangible asset at a total carrying amount of \$6.9 million.

In the second half of the reporting period, however, two of Jess Coaches' largest clients moved to a new competitor. The management of Matty Co believe that while it would be difficult to identify a sales value for the customer list at the reporting date, they estimate the value in use of the customer list to be \$7.2 million.

**Chairman's statement**

Matty Co's draft annual report includes a performance review written by the company's chairman from which the following extract has been taken:

"It is always a pleasure for me to be associated with such a stable and high performing company as Matty Co. During my tenure as chairman over the last five years, the company's business has grown each year and has produced an ever improving return for our investors."

The audit working papers include notes of a discussion with the company's finance director, in which he commends the chairman's performance review and maintains that everyone understands that it is the chairman's role to promote the company with a positive narrative.

## Exhibit 2: Update and draft auditor's report

