

ICAS: TEST OF PROFESSIONAL SKILLS

Assurance and Data

This question paper has been updated to reflect changes to the approach and content of the 2022 syllabus and should be used by students to prepare for any exams sat in 2022. The original 2021 version of the paper, as was sat by students in December 2021 is also available on [icas.com](https://www.icas.com).

Total marks: 100

Date: Tuesday 14 December 2021 Standard Time: 09:30 – 13:45 Duration: 4 hours

Notes to Candidates

This paper contains four exam questions and relevant appendices. Candidates must answer all four exam questions.

Please note you are only permitted to submit one Microsoft WORD document at the end of your exam. You are allowed to use Microsoft Excel during the exam HOWEVER you **MUST** copy and paste your Microsoft Excel output(s) into your final word document. All Microsoft Excel output(s) included in Microsoft Word must be legible and viewable in their entirety.

You **MUST NOT** submit this question paper as part of your answer.

On submission of your response file you confirm it is your own work. It is not copied from any other person's work (published or unpublished) and any areas that have been copied from source materials have been acknowledged.

No part of this submission has been copied from the work of any other candidate, nor have you consulted or colluded with any other person on the content of your exam responses during the examination.

You agree that ICAS will check your work for plagiarism, and you confirm that you understand that assessed work that has been shown to have been plagiarised will be penalised.

15-minute mandatory break

The duration of the exam is **4 hours**, however a 15-minute **mandatory** 'on camera' wellbeing break has been allocated which means that the total duration of the exam session will be 4 hours and 15 minutes (excluding print and submission time).

The break can be taken at a time to suit you (must be taken in one interval), but we **strongly advise that you take the break mid-way through the exam**. This 15-minute break is not counted as exam time and cannot be used to continue writing your exam, reviewing your answers, reading your open-book materials, or reading the exam paper. Please note that **it is your responsibility to time your break**.

On the next page is guidance on what is permitted during the break and what is not permitted. Any breach of the permitted actions will be deemed to be a breach of the [ICAS Academic Integrity Policy](#) and may be considered to be cheating and could be subject to a marking penalty under the ICAS Academic Integrity Policy.

Please continue reading the guidance BUT do not read the exam questions prior to the start time

15-minute mandatory break

Permitted	NOT Permitted
Inform the remote invigilator that you are taking your 15-minute 'on camera' break (put your hand up and say "15-minute wellbeing break").	Continue typing your exam responses.
Move away from your screen (to give your eyes a rest) but remain in full view of your camera.	Read your open-book material or any course related materials. Read/review your exam script OR exam paper.
Use the time to drink or eat any refreshments that you have taken into the exam (you must take these in prior to the exam start time).	Leave the room for the entire duration of the break.
Use the time to stand up, walk around and sit elsewhere, so long as you remain in view of the camera.	Turn off your camera.
Use the time to take the usual bathroom break and inform the remote invigilator	Take the break 'off camera' or go 'off camera' except for the usual bathroom break
Take the 15-minute break in one interval and ensure that you time your break.	Communicate with anyone except the remote invigilator or an ICAS member of staff who is supporting the administration of the exams.
	Access the internet OR Use your phone.
	Contact or collude with any third parties, either in person or electronically (e.g. email, voice, chat, and other digital communication methods).
	Shut down your exam.
	Leave the examination environment to fetch additional food or drink.

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QUESTION 1 (40 marks)

You are an audit manager at Blairs Advisory Group LLP ('Blairs') and are working on the external audit of the financial statements of NC&T Drinks Company Ltd ('NC&T') for the year ended 31 December 2021. NC&T has been a client of your firm for several years and this is your first year as audit manager. You are in the process of planning the audit and you are considering the work to be performed around inventory, trade receivables and whether the audit team can place reliance on the work of NC&T's internal audit department.

NC&T was founded in 1986 and manufactures and sells a variety of fruity soft drinks to drinks suppliers and retailers. Two of the largest UK supermarket chains, Birch Retailers plc and Barnbury Food Group plc are its biggest customers. In the previous year to 31 December 2020 the company's turnover was £10.2m and it is expected that performance in 2021 will be similar.

The company is based in the town of Kings Lynn, England, with a head office building adjoining two large warehouses. Warehouse one houses the production equipment and raw materials to make the drinks and warehouse two stores finished goods ready for dispatch. The types of inventory held are as follows:

Raw materials ('RM')	<ul style="list-style-type: none">• Bulk purchases of liquids and powders used to manufacture drinks.• Packaging bottles and boxes for the drinks.
Finished goods ('FG')	<ul style="list-style-type: none">• Drinks ready for sale.

Inventory has been identified as a material balance within the financial statements. As part of the audit planning process, your audit team has been provided with the interim inventory listing, per NC&T's general ledger, as at 30 September 2021, which has been analysed using your firm's audit data analytics software (Appendix 1). The results of the analysis include information on the usage of raw materials during the production process as well as sales data related to the finished goods.

You have also received some commentary from NC&T's finance manager, Tanya Lorenz, (Appendix 2) concerning inventory production and performance during the nine-month period to 30 September 2021.

Your audit partner, Penny Rowe, has asked you to evaluate the results of the audit data analytics exercise over inventory, analysing any identified areas of audit risk. She would also like you to design any relevant substantive procedures required in response to the risks identified.

Penny also highlighted that she wished to undertake a trade receivables circularisation exercise using a sample of receivables balances. She has requested that a sample is selected from balances as at 30 September 2021 with relevant roll forward procedures performed for the subsequent period from 1 October 2021 to 31 December 2021. Penny has provided you with an extract from the trade receivables ledger as at 30 September 2021 as well as details relating to the customer balances noted during the audit planning meeting with NC&T's finance director (Appendix 3). Penny would like you select which balances should be sampled for the exercise, analysing your rationale. Your focus should be on balances where there is evidence of risk of misstatement.

Finally, in February 2021, an internal audit department ('IAD') was created at NC&T and has carried out a number of reviews during 2021. NC&T's finance director is keen that the external audit team look to rely on some of the work that has been performed. Tanya Lorenz also works with the internal audit department and Penny held a meeting with her to obtain some information on IAD's structure and work to date (Appendix 4). Penny would like you to evaluate the strengths and weaknesses of the IAD to determine whether or not it is likely that the audit team can place reliance on its work for the purpose of the external audit.

Required:

1. Prepare information suitable for inclusion in an audit workpaper in which you:
 - (a) Evaluate the results of the audit data analytics exercise over inventory, analysing any identified areas of audit risk; and
(11 marks)
 - (b) Design relevant substantive procedures in response to the risks identified in requirement 1(a)
(11 marks)
 2. Using the information in Appendix 3, identify which balances from the trade receivables ledger should be selected for the trade receivables circularisation exercise, analysing your rationale. (Note: you do not need to explain your rationale for those balances not selected).
(8 marks)
 3. Prepare information for inclusion in a briefing note in which you evaluate the strengths and weaknesses of the internal audit department of NC&T and form a conclusion on whether it is likely that reliance can be placed on internal audit for the purposes of the external audit.
(10 marks)
- (40 marks)**

APPENDIX 1 (QUESTION 1) – Extract from the report on the data analytic procedures performed over inventory at 30 September 2021 provided by Blairs audit data analytics team

A. Objectives of audit data analytic ('ADA') routine – planning analytics inventory

The objective of the ADA is to identify any potential material misstatements within inventory.

The following routines have been run as part of the audit data analytic tool:

- 1) Identify any items where cost exceeds net realisable value ('NRV')
- 2) Identify any perishable items which are past their expiry date
- 3) Identify any slow-moving items – *this is determined as any finished good where the 'last sale' was before 1 April 2021*
- 4) Identify any duplicate inventory items
- 5) Identify any items in breach of first in first out ('FIFO') policy
- 6) Identify any items which have a short shelf life – *this is determined by the raw material 'expiry date' being within one month of the 'last receipt in warehouse'*

Any inventory items identified as a result of the above routines are flagged by the relevant routine number.

B. Cleansing of data

Data was extracted from the NC&T system by the Blairs audit data analytics team using their data extraction tool and it did not require cleansing. The data outputs have been split into raw materials and finished goods to be consistent with the inventory listing.

C. Completeness and integrity check of input data

The data has been checked for accuracy, completeness, validity and reliability by the audit team. This included checking the overall NRV, total number of inventory items and the inventory provision included in the 30 September 2021 management accounts.

APPENDIX 1 (QUESTION 1) (continued)

D. Results

Raw materials

Flag	ID	Detail	Expiry date	Last receipt in warehouse	Last used during production	Cost	Budget usage full year	Actual usage YTD
2	CH-52	Cherry concentrate	31/12/2020	10/12/2018	05/03/2019	£1,540	10,000 bottles	-
4	GP-420	Grape concentrate	05/02/2022	10/02/2021	26/06/2021	£5,635	75,000 bottles	45,000 bottles
4,5	GP-420o	Organic grape concentrate	30/07/2022	05/06/2021	18/09/2021	£6,480	-	20,000 bottles
6	FA-64	Fresh apple juice	10/10/2021	20/09/2021	02/08/2021	£3,766	750 bottles	760 bottles
4	SS-17	Sugar syrup	05/07/2022	05/09/2021	25/09/2021	£4,581	174,000 bottles	125,850 bottles
4	SS-1-7	Sugar syrup	05/07/2022	05/09/2021	25/09/2021	£4,581	174,000 bottles	125,850 bottles

Finished goods

Flag	Product name	Last manufacture date	Expiry date	Last sale	Cost	Selling price	Budgeted sales full year	Actual sales YTD
1	Tropical	15/08/2021	30/01/2022	30/08/2021	£2,322	£2,150	20,000 bottles	17,000 bottles
3	Pineapple and lime	04/07/2021	16/12/2021	25/03/2021	£3,510	£5,250	3,000 bottles	2,000 bottles
3	Super vitamin	14/07/2021	04/03/2022	18/03/2021	£1,836	£2,345	15,700 bottles	6,300 bottles

APPENDIX 2 (QUESTION 1) – Commentary from NC&T’s finance manager, Tanya Lorenz, concerning inventory production and performance during the nine-month period to 30 September 2021.

Production process

Each day a different drink is manufactured by the company. The drink-making equipment uses computerised recipe cards to determine what ingredients to mix at each part of the process and the volumes required. Before the manufacture of a specific drink begins, a production assistant selects the correct recipe card on the computer and puts the various ingredients into the machines. These are reviewed by a production manager before the process begins.

The production team use a first in first out ('FIFO') policy to ensure that the raw materials that have the earliest expiry date are used first.

The machines are cleaned at the end of the day. As such there is no WIP at the end of the production day.

Other comments

The grape concentrate (ID:GP-420) has been replaced with an organic grape concentrate by the supplier. The product is exactly the same apart from being re-branded organic. In October 2021 the ID for the organic product was updated to GP-420o and the recipe card was updated to ensure that this item is used for all future production.

Pineapple and lime juice was specifically made for one customer. Following poor sales, the customer has decided to discontinue stocking this product within its stores.

In January 2021, a competitor launched a similar product to super vitamin juice which is 20% cheaper than the NC&T selling price.

APPENDIX 3 (QUESTION 1) – Trade receivables extract as at 30 September 2021

Customer	Balance per sales ledger	Overall total sales year to date	Prior year total sales	Aged analysis in days			
				0-30	31-60	61-90	90+
Birch Retailers plc	£6,940	£870,888	£1,138,111	£3,820	£3,120	-	-
Fresh Fruits Deluxe Ltd	£27,543	£163,873	£217,529	£2,875	£13,950	£5,169	£5,549
Martin's Vegan Store	£540	£1,600	-	£540	-	-	-
Harry's Food Coop	£4,230	£84,837	£102,054	£2,563	-	-	£1,667
Tasty Veg Ltd	£2,012	£12,091	£18,900	£1,659	£353	-	-
Mayburn Farm Shop	(£1,590)	£48,099	£38,748	£1,304	(£2,894)		
Juice Box Ltd	£215	£590	£700	£205	-	-	£10
Barnbury Food Group plc	£75,980	£785,928	£1,298,593	£16,905	£25,012	£23,976	£10,087

Notes from the audit planning meeting with NC&T's finance director

- Invoices are issued on the same day as the goods despatched note and NC&T gives all customers credit terms of 60 days to pay from date of invoice.
- Fresh Fruits Deluxe Ltd has been a customer for many years but recently it has been in the news for being in financial difficulty. The finance director highlighted that NC&T's receivables account manager has been in contact with the customer about late payments. However, it is yet to receive a reply.
- Martin's Vegan Store is a new customer in 2021, located near to the warehouses. The customer has been making frequent small orders and has always settled its account within a week of invoicing.
- The finance director noted that there was an on-going dispute with Harry's Food Coop about the quality of some products. The customer is currently refusing to pay an invoice issued over three months ago until a partial refund has been applied.
- As well as purchasing juice from NC&T, Mayburn Farm Shop also supplies fresh fruit to NC&T and both the sales and purchases are handled through the one account on the system. When a purchase is made, it offsets this against any sales invoices on the system.

APPENDIX 3 (QUESTION 1) (continued)

- Barnbury Food Group are currently on a payment plan after the customer struggled to pay its invoices. As a result, the customer has invoices outstanding past the normal credit term. NC&T's management have agreed they are comfortable with this as Barnbury Food Group has recently secured new investment.

APPENDIX 4 (QUESTION 1) – Information regarding NC&T’s IAD provided by NC&T internal audit manager, Tanya Lorenz

The IAD comprises of four members, three full time and one part time.

The head of the IAD, Amir Shariff, joined NC&T when the function was set up and has a number of years’ experience in internal audit. His previous role was head of internal audit at a food manufacturer. The other members of the team comprise Tanya Lorenz CA, internal audit manager and Gillian Jenkins and Ollie Hays (part time), internal audit assistants, who are qualified accountants with additional internal audit qualifications.

Amir reports directly to the finance director on a monthly basis. At the start of the year, Amir prepares a formal internal audit work programme for the year which is signed off by NC&T’s board. When the IAD was set up, the board highlighted they wanted to adopt a risk-based approach targeting areas for coverage rather than testing of all controls across the business.

IAD use a specific internal audit software that creates well-constructed audit programmes and refers to Internal Audit Standards.

It took longer than expected to get the team fully up and running and, as such, only five out of 10 reviews have been completed since the department was created late last year. Two of these were over key business processes and three were in response to specific requests from directors and deemed one-off reviews (including a governance review and an IT audit).

QUESTION 2 (20 marks)

You are the audit senior planning the approach to the audit of payroll for a large client in the steel industry, Steel Manufacturers Limited ('Steel') for the year ended 30 November 2021. You are planning to utilise your firm's audit data analytic ('ADA') tools to perform analysis of the payroll balance for the purposes of assessing audit risk and carrying out audit testing.

Steel's payroll consists of three elements, administration staff, production staff and executive management. The payroll for administration staff and production staff is processed by Steel using its payroll system 'Paymaster'. The executive payroll is managed by an external service provider. Paymaster is a standalone system and payroll transactions are input into the financial ledger by way of monthly journals.

Your audit work is focused on the payroll for administration and production staff and another member of your team is undertaking relevant audit procedures over the executive payroll. Your audit junior, Gareth Thomson, met with Jordon Small, Steel's payroll manager and obtained a download of administrative and production staff payroll data from Paymaster. The download included various items of personal information including employee ID's, bank account details, prior year earnings, employee department and the date of hire/termination. Gareth performed data cleansing and integrity checks over the data before generating the ADA outputs for consideration by the audit team (Appendix 1). There were no issues noted with the data cleansing or integrity checks.

You have also been provided with information from Simpson Jones, Steel's finance manager, and a summary of the payroll process from the prior year audit file to assist in the analysis (Appendix 2).

Unfortunately, Gareth was suddenly sacked yesterday following a complaint by one of your colleagues who had discovered that he had been regularly leaving work early and had not completed all of the work assigned in line with the firm's standards.

Required:

1. Analyse the results of the outputs of the audit data analytic exercise over payroll to highlight any concerns over the accuracy, validity and completeness of underlying data related to payroll.
(10 marks)
2. Describe, where applicable, any further audit evidence that is required in order to conclude on whether reliance can be placed on the underlying data by the audit team.
(10 marks)

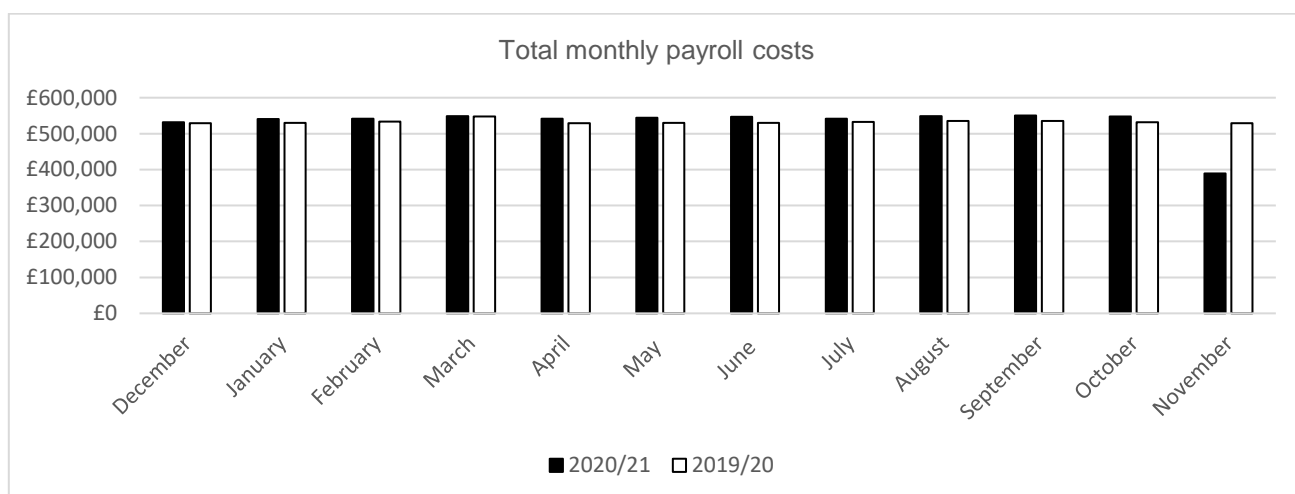
(20 marks)

APPENDIX 1 (QUESTION 2) – Outputs from ADA exercise prepared by Gareth Thomson

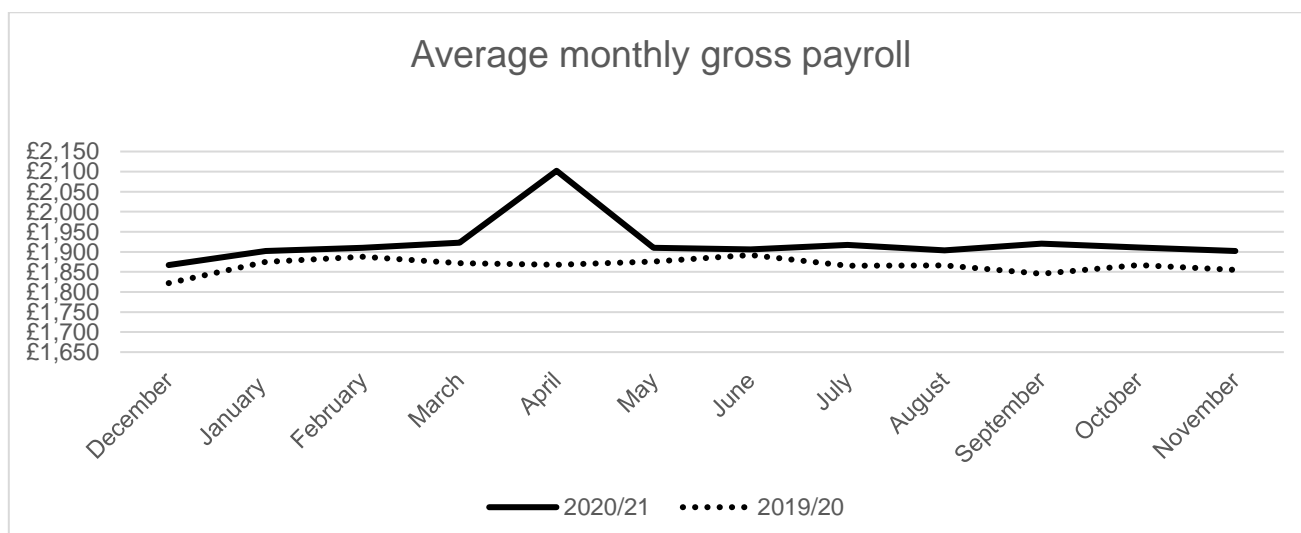
Data summary from upload to ADA tool

	Year ended 30 November 2021	Year ended 30 November 2020
Actual number of employees at end of year	188	190
Administration staff total gross pay	£2,301,220	£2,336,144
Production staff total gross pay	£4,070,255	£4,057,763
Total gross pay for administration and production staff	£6,371,475	£6,393,907
Number of duplicate employee bank accounts	4	3
New hires	81	84
Terminations	88	82

Output 1 – total monthly payroll costs for administration and production staff

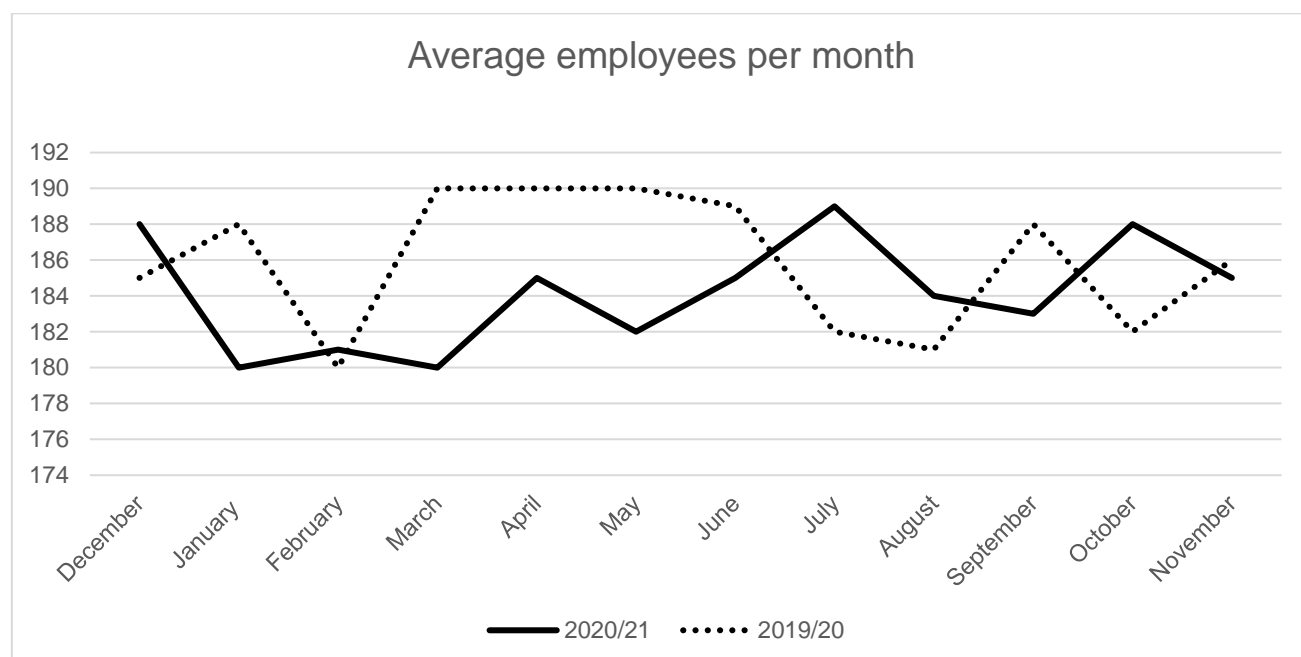


Output 2 – average monthly gross payroll for administration and production staff



APPENDIX 1 (QUESTION 2) (continued)

Output 3 – average employee numbers per month for administration and production staff



Output 4 – duplicate employee bank account numbers

Employee ID	Bank account number	Monthly pay rate
2824AD	1017321	£1,976.06
9611AD	1017321	£1,923.57
1554AD	1026066	£2,644.66
8139AD	1026066	£1,951.68
1433AD	1032510	£2,522.08
7433AD	1032510	£1,695.53
5797AD	1070201	£2,452.98
6049AD	1070201	£2,973.67

APPENDIX 2 (QUESTION 2) – information from Simpson Jones, Steel's finance manager and a summary of the payroll process from the prior year audit file

Simpson Jones provided you with a draft set of financial statements for the year ended 30 November 2021. The total gross pay for administration and production staff disclosed in the notes to the draft financial statements is £6,839,235 (2020: £6,498,759).

An annual bonus is paid to all employees subject to the company's financial performance for the financial year to 30 November. The annual bonus is accrued based on the draft financial statements and paid to employees in the following April after the statutory audit is completed. There was no bonus paid during 2020 due to the company not achieving suitable financial performance in the year ended 30 November 2019.

All staff normally receive an inflationary pay increase each January.

Extract from the prior year audit file relating to the process for the administration and production staff payroll

Monthly reporting (extract)

The payroll listing (extracted from Paymaster) is reconciled monthly to the payroll costs in the financial ledger. The financial accountant prepares the reconciliation which is subject to a detailed review by the finance manager. Typically, there are a number of reconciling items between the listing and the ledger including holiday pay accruals and bonus accruals.

The company maintains an average headcount of administration and production staff of between 180 and 190. However, there are frequent movements in the number of production staff employed each month and Jordan Small compiles a monthly headcount analysis detailing monthly and annual headcount movements. The analysis sets out the reasons for variances and is reviewed by the company's executive management and approved by the human resources director. Historically, movements mainly occur with lower paid staff and there is not a noticeable effect on the overall total monthly payroll cost.

Payroll masterfile maintenance system notes (extract)

New hires are captured in the Paymaster payroll system based on approved new employee forms and terminations are processed following receipt of approved termination forms. The new employee form includes various items of personal information for the new hire including name, address, date of birth, national insurance number and bank account details.

The system allows a user to input an employee's bank account number despite there already being an identical bank account number assigned to a different employee in the system. This functionality was retained to accommodate instances where family members with joint bank accounts both worked for Steel.

To validate such bank account numbers, on a monthly basis, an exception report is generated by the financial accountant. The financial accountant will validate the respective employees with duplicate bank account numbers and provide evidence of such validation to the finance manager who approves and signs off the exception report.

QUESTION 3 (15 marks)

You are an audit manager for Trusty LLP a large multinational audit firm based in Glasgow, Scotland. You have been approached by your audit partner to aid with two matters.

Firstly, you have been asked to assist on one of your firm's new clients Golden Wing Ltd ('Golden'), a financial services company. Golden is a global investment manager which has operated in the UK for more than 20 years. Golden offers potential investors access to a large selection of funds in order to allow its investors to select funds for investment that best match their desired level of risk, geographic diversity and timescale.

Golden is registered with the Financial Conduct Authority ('FCA') as holding both client money and custody assets. As a result, it is bound by the rules of the FCA's Client Asset Sourcebook ('CASS'). The income streams and processes utilised by Golden for dealing with client money are detailed in Appendix 1. You have been asked by your audit partner to undertake a review of Golden's processes and to analyse any identified breaches by Golden of the FCA CASS rules and recommend any required improvements to their existing processes.

Secondly, the partners of Trusty LLP have asked that you assist in the induction of the new CA students who have recently started their training at your firm. Specifically, you have been asked to explain the policies and procedures that audit firms should establish to maintain a system of quality control at the firm level.

This should include policies and procedures, via a system of quality controls, to provide reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements and that reports issued by the firm or engagement partners are appropriate.

Another audit manager within the firm is going to present separately on controls relating to engagement performance, information and communication, and the monitoring and remediation process including specific engagement level policies and procedures in place at Trusty LLP, so you have been told that you can exclude these from your presentation.

Required:

1. Prepare information suitable for inclusion in a briefing note in which you analyse any identified breaches by Golden of the FCA CASS rules and recommend any required improvements to its existing processes.

(10 marks)

2. Prepare notes for a presentation in which you explain, using examples to support your answer, the policies and procedures that should be established within audit firms to maintain a system of quality management at the firm level.

(5 marks)

(15 marks)

APPENDIX 1 (QUESTION 3) – Golden Wing Ltd income streams and processes

Portfolio Information

Golden offers a wide range of income and accumulation funds for its current and future investors / clients. An income fund will distribute any interest or dividend received, in excess of expenses, back to the client. The client will receive an income from the investment at regular intervals. An accumulation fund is designed to offer growth in the fund rather than income, so any income generated will be reinvested within the fund.

Potential revenue streams for Golden include:

- Annual management fees (normally a set % of the assets under management);
- Performance fees (based on fund performance); and
- Entry and exit fees (for investors joining / leaving the fund).

Size

Golden holds £1.5 million of client money and £12 million of custody assets. Golden has classified itself as medium from an FCA perspective. The CASS Classification Questionnaire will be submitted each year on 10 January.

Client Money and Asset Return ('CMAR') filing

Following an internal restructure Fred Wagner, client money junior manager, is Golden's newly appointed CF10a and submits the CMAR each month. The reporting dates for Golden are the 15th of each month. Fred has a calendar reminder set up on his computer that he must submit the CMAR on the 10th of the following month.

Client monies

Golden operates five client accounts as well as numerous bank accounts held by Golden.

Detail of client accounts

1. Golden Wing Ltd Client Current account
2. Golden Wing Ltd Client Deposit account
3. Golden Wing Ltd (Client Money)
4. Golden Deposit Account
5. Client Bank Account

All monies received from clients are paid direct into Golden's own bank account. It is then aggregated into Golden's client bank accounts.

Fred performs a reconciliation between client money held in transaction accounts against client money actually held on a monthly basis. Any reconciling items are posted to the suspense account in the nominal ledger. Fred has found that the reconciling items in the suspense account tend to cancel one another out after a few weeks. The suspense account is reviewed every quarter by Fred if he has sufficient time available.

QUESTION 4 (25 marks)

You are the audit manager on the audit of the group financial statements of Efficient Turbines Group Limited ('Efficient'), an established audit client of your firm. The audit fieldwork for the year ended 30 September 2021 is almost complete and you are undertaking the going concern review for the group financial statements and reviewing the outstanding matters for one of the group subsidiaries.

The Efficient group comprises a non-trading holding company and two wholly-owned UK based subsidiaries: Efficient Wind Turbines Limited ('Turbines') and Efficient Spares Limited ('Spares'). All the companies in the group are audited by your firm.

Turbines manufactures slip rings which are a key component of wind turbines as they allow transmission of power and electrical signals from a stationary to a rotating structure. As the range of wind turbines has increased around the world, the size and specification of the slip rings manufactured by Turbines has also increased. Turbines supplies all the major wind turbine manufacturing companies with slip rings.

Spares was established in 2015 to respond to the increasing demand for parts and labour relating to the repair, maintenance and inspection of slip rings. Spares operates in a competitive market and has succeeded in winning new work post year-end. However, the company is reliant on five existing repair contracts that are due for renewal in 2022 and account for 40% of the company's revenue.

To assist you with your work you have obtained Efficient's consolidated quarterly cashflow forecast for the next 12 months, including assumptions (Appendix 1) from Phyllis Lee, Efficient's financial controller.

Jack Williamson, your audit partner, has also provided you with a list of outstanding matters from the component audit of Spares prepared by the component audit senior.

The group financial statements are due to be signed on 1 February 2022.

Required:

Prepare information suitable for inclusion in audit workpapers in which you:

1. Analyse the cashflow forecasts and evaluate the reasonableness of the assumptions.
2. Evaluate each of the outstanding matters from the audit of Spares and confirm any further actions required by the audit team.

(16 marks)

(9 marks)

(25 marks)

APPENDIX 1 (QUESTION 4) – Consolidated group cashflow forecast for the year ended 30 September 2022 (provided by Phyliss Lee, Efficient's financial controller)

		<i>Year ended</i>	<i>Forecast year ending 30 September 2022</i>			
		<i>Draft 30 Sep 2021</i>	<i>Q1 to 31 Dec 2021</i>	<i>Q2 to 31 Mar 2022</i>	<i>Q3 to 30 Jun 2022</i>	<i>Q4 to 30 Sep 2022</i>
	<i>Note</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
CASH INFLOWS						
Revenue from sales of slip rings ____	1	87.3	24.3	22.1	22.5	22.9
Revenue from sales of parts _____	2	8.4	2.1	2.1	2.2	2.2
Revenue from repair contracts _____	3	9.6	2.4	2.6	3.1	3.3
		<u>105.3</u>	<u>28.8</u>	<u>26.8</u>	<u>27.8</u>	<u>28.4</u>
CASH OUTFLOWS						
Purchases _____	4	33.9	8.8	8.8	8.8	8.8
Property, plant and equipment _____	5	0.5	0.1	2.6	0.1	0.1
Wages & salaries – Turbines & Spares	6	40.4	10.1	10.8	10.3	10.3
Salaries – Efficient _____	6	1.4	0.3	0.5	0.3	0.4
Employers NI & pensions _____		8.7	2.2	2.5	2.5	2.5
Professional fees _____		0.7	0.1	0.2	0.2	0.2
Corporation tax _____		3.1	0.8	0.8	0.8	0.8
Loan repayment _____	7	0.8	0.2	0.2	0.2	0.0
Dividend paid _____	8	0.2	0.0	0.0	0.3	0.0
Other costs, including insurance _____	9	5.0	1.2	1.0	1.0	0.8
Bank charges and interest _____		0.8	0.2	0.1	0.1	0.0
		<u>95.5</u>	<u>24.0</u>	<u>27.5</u>	<u>24.6</u>	<u>23.9</u>
Surplus / (deficit) _____		<u>9.8</u>	<u>4.8</u>	<u>(0.7)</u>	<u>3.2</u>	<u>4.5</u>

APPENDIX 1 (QUESTION 4) (continued)

Notes:

1. Revenue from sales of slip rings for the cashflow is based on individual contracts. Revenue is invoiced monthly based on the percentage completion method with payment terms being 30 days for all major customers. For clarity, within the contracts, indicative percentage of completion figures are included for each month. These figures have been used to build the cashflow for the year.

During 2020/21 there were a number of delays within the supply chain resulting in delays in completing contracts which resulted in revenue totalling £2m and originally forecast to be invoiced and received in September 2021, being received in October 2021.

The current order book, as at 30 November 2021, shows signed contracts to supply £50m of slip rings by September 2022.

2. Spare part prices increased by 2% from 1 October 2021. This has been approved by Spare's board of directors.
3. In November 2021, Spares won a five-year repair contract with an owner of a motorway wind turbines site, commencing on 1 February 2022. The value of this contract is £10m with onsite work scheduled to commence in June 2022. The cashflow includes £500,000 of revenue in both quarters three and four. The cashflow also assumes renewal of Spare's five large existing repair contracts.
4. Purchases include all raw materials for production at Turbines and for parts held and used by Spares to fulfill contracts.
5. In November, Spares signed a contract to purchase an industrial unit adjacent to Turbines manufacturing site at a cost of £1.5m, with an entry date of 25 March 2022. Spares has also agreed to purchase plant and equipment costing £900k which will be installed at the end of March 2022.

This additional manufacturing site will enable Spares to tender for more projects and the recruitment process has begun to engage a further 25 engineers for the site.

During the year ended 30 September 2020, Spares carried out a significant capital improvement programme replacing a number of its assets. As a result, it is not expected that there will be any other significant capital expenditure in 2021-22 and an estimated £0.1m per quarter is included for any other PP&E purchases.

6. All employees will receive a 1% pay rise from 1 January 2022. Q2 wages and salaries includes bonuses of £0.8m for the year ended 30 September 2021.
7. Under the conditions of the term loan with ABank plc, the group has scheduled £200,000 repayments each quarter, with the final repayment in May 2022.

APPENDIX 1 (QUESTION 4) (continued)

8. At the shareholder meeting in April 2021, a dividend of 3.5p per share was approved and was paid in May 2021. A similar dividend is forecast to be paid in May 2022.
9. Other costs, including insurance for the year ended 30 September 2021, included one off costs of £250,000 relating to a claim for an accident in the workplace.

APPENDIX 2 (QUESTION 4) – outstanding matters from the audit of Spares (prepared by component audit senior)

The following points are outstanding points from the audit of Spares. Component materiality has been set at £52,000.

Year-end inventory provision:

The year-end inventory provision is £135k (2020 £73k). The audit team's calculations, using the group accounting policy of providing 50% of the cost of parts with no usage in 180 days and 100% of the cost for parts with no usage in 360 days, indicate that the provision should be £82k. Discussions with management indicate that additional parts have been included in the provision as they believe that they will not be used.

Trade payables:

At the year end, Spares owed EXZ Components Ltd ('EXZ') £10k for parts purchased during the year. During our fieldwork we noted from the supplier statement reconciliation that £61k of parts were 'awaiting credit' as these had been returned in September 2021. Prior to using any of these parts, Spares tested the products and the results indicated that these were not manufactured to the standards Spares required and under the terms of the contract they were returned to EXZ. A review of the October supplier statement (latest available) showed no evidence that a credit note had been issued.

Compensation claim:

An employee of Spares was involved in a road traffic accident whilst travelling to a site in September 2021. The employee was unhurt, but the counterparty is seeking compensation for injuries from Spares and a claim has been received from their lawyer. There is no provision or reference to this claim in the draft financial statements as management do not believe that Spares was at fault.

————— End of Paper —————