

ICAS: TEST OF PROFESSIONAL SKILLS

Assurance and Data

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 It is not copied from any other person's work (published or unpublished) and any areas that have been copied from source materials have been acknowledged.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 |
|--|
| Inform the remote invigilator that you are taking your 15-minute 'on camera' break (put your hand up and say "15-minute wellbeing break"). |
| Move away from your screen (to give your eyes a rest) but remain in full view of your camera. |
| 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). |
| Use the time to stand up, walk around and sit elsewhere, so long as you remain in view of the camera. |
| Use the time to take the usual bathroom break and inform the remote invigilator |
| Take the 15-minute break in one interval and ensure that you time your break. |
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| NOT Permitted |
|---|
| Continue typing your exam responses. |
| Read your open-book material or any course related materials. Read/review your exam script OR exam paper. |
| Leave the room for the entire duration of the break. |
| Turn off your camera. |
| Take the break 'off camera' or go 'off camera' except for the usual bathroom 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 completeness; occurrence; and accuracy 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)

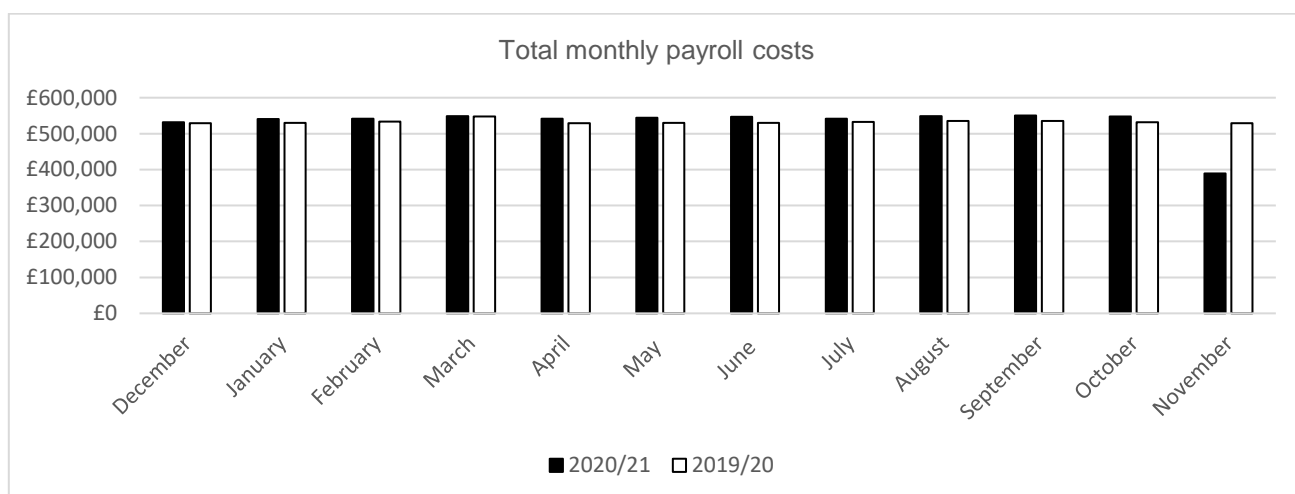
(20 marks)

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

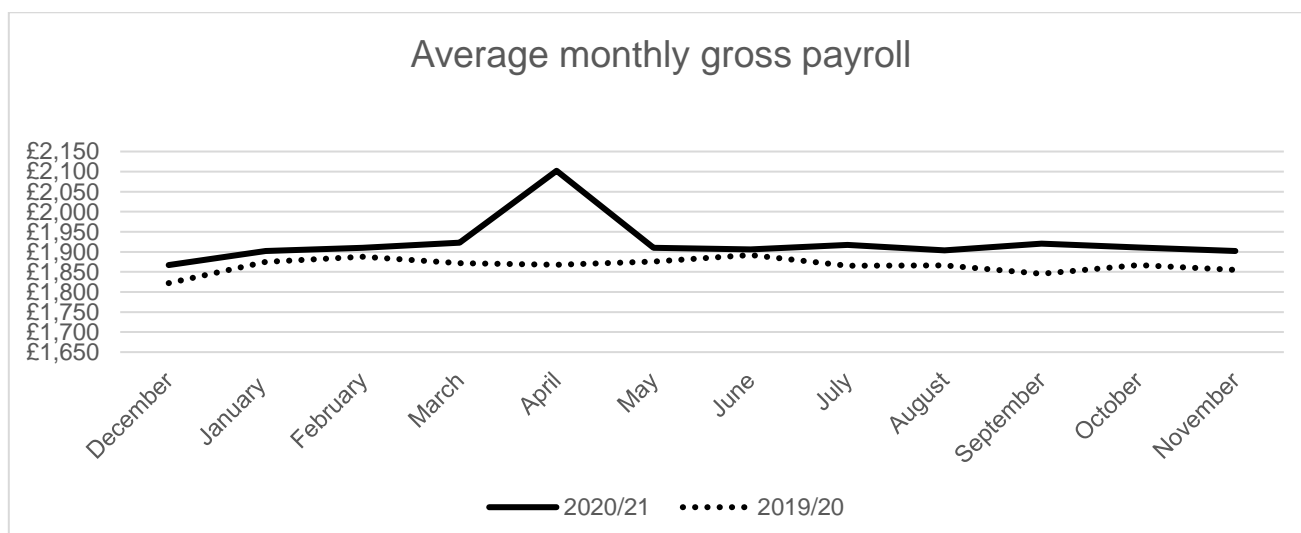
Data summary from upload to ADA tool

| | 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

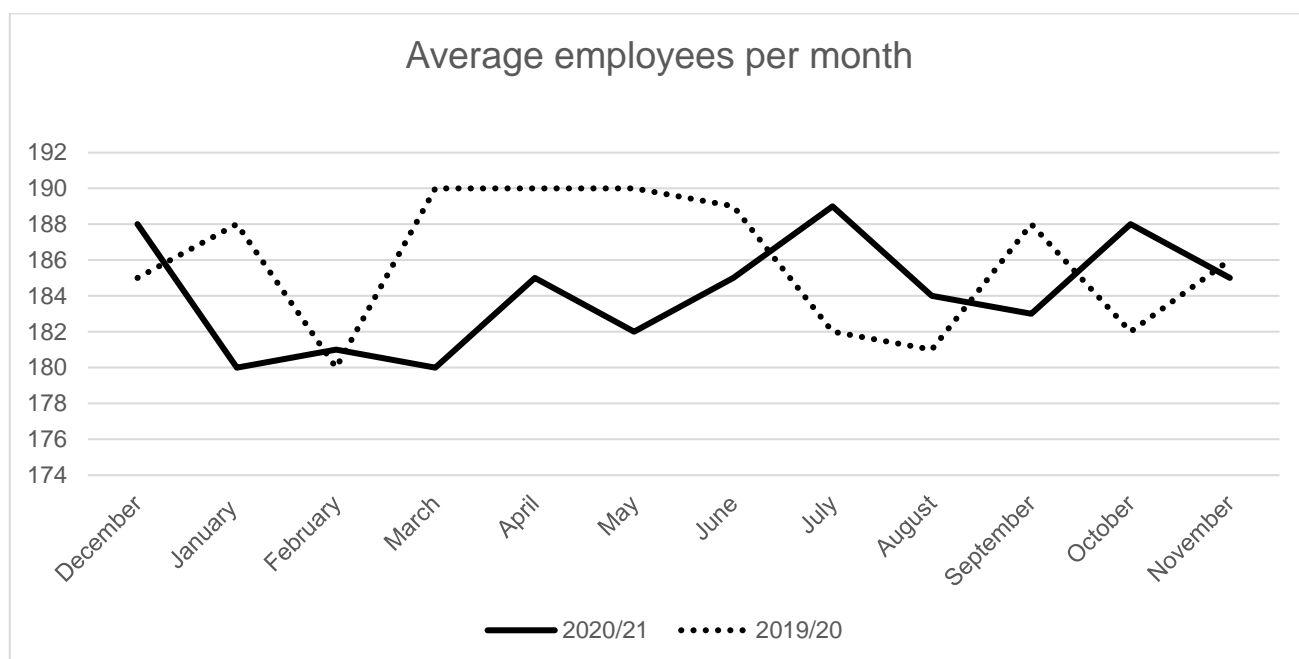


Output 2 – average monthly gross payroll for administration and production staff



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 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 control 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 —————



TEST OF PROFESSIONAL SKILLS

December 2021
Assurance and Data

SOLUTION

This solution has been prepared by CA Learning as a complete solution and includes explanatory notes where appropriate. As such, the solution is more detailed than would be expected of a candidate in the allocated time.

This solution is prepared based on a cut-off date of 30 November 2020.

QUESTION 1 (40 marks)

Requirement 1 – Evaluate the results of the audit data analytics exercise

| (a) Audit risk identification and evaluation | (b) Substantive procedure |
|---|---|
| <p><u>CH-52</u> This was last used in production in March 2019 and is now passed its expiry date of December 2020.</p> <p>The item can no longer be used in manufacturing and should not be included in inventory. Therefore, inventory is currently overstated.</p> | <p>Inspect inventory records to confirm if still held by the company at 31 December 2021 and, if so, confirm that it has been provided for in the year end financial statements.</p> |
| <p><u>GP-420 / GP-420o</u> The last delivery of GP-420 has been recorded as GP-420o following a rebranding of the product by the supplier and this item will now be used for all future production.</p> <p>There is a risk that the remaining stock of GP-420, which is still suitable for production, will not be used within its expiry period and become obsolete.</p> | <p>Inspect production records for October to December (and if applicable post year-end) to confirm if remaining stock of GP-420 has been used for production.</p> <p>Confirm with management any plans for the remaining inventory of GP-420 if not yet used during production.</p> |
| <p><u>FA-64</u> Fresh apple product has an expiry date within one month of last receipt into the warehouse meaning it has a very short shelf life. In addition, the budgeted usage has already been achieved therefore it may not be used in the near future.</p> <p>There is a risk of wastage if FA-64 cannot be used and inventory may be overstated.</p> | <p>Inspect year-end inventory records to confirm that all inventory with an expiry date of 10 October 2021 has been used in production prior to year end.</p> <p>Confirm that any expired unused inventory has been written off within the financial statements.</p> |

| | |
|---|--|
| <p><u>SS-17/SS-1-7</u></p> <p>The sugar syrup entries in the inventory report have identical details (apart from their ID's) which suggests that the details have been incorrectly entered twice in the system.</p> <p>There is a risk that inventory may be overstated and one of the entries needs to be removed.</p> | <p>Agree receipt of inventory to the relevant goods received note and invoice to confirm correctly recorded.</p> <p>If the items have been recorded twice request management to adjust the financial statements and report the adjustment in the summary of audit misstatements.</p> |
| <p><u>Tropical</u></p> <p>The finished goods have a selling price of £2,150 which is less than the cost price of £2,322.</p> <p>The inventory is overstated as the items should be held at the lower of cost and NRV.</p> | <p>Review post year-end sales for Tropical inventory to confirm current selling price and that NRV is greater than cost.</p> <p>Where NRV is less than cost, ensure items have been included in the inventory provision.</p> |
| <p><u>Pineapple and lime</u></p> <p>There have been no sales of this stock since 25/3/2021 and the customer has confirmed that they will not be purchasing any more due to poor sales in stores.</p> <p>There is a risk that this juice cannot be sold to another customer resulting in no further market for the inventory and a provision being required.</p> | <p>Inspect correspondence with customer to confirm if there is any contractual obligation to purchase the remaining items.</p> <p>Enquire with management of any plans to sell/dispose of the remaining inventory.</p> |

| | |
|---|--|
| <p><u>Super vitamin</u></p> <p>Due to a cheaper competing product being launched the last sale for super vitamin was prior to 1 April 2021 and this is identified as a slow-moving item.</p> <p>In addition, actual YTD sales of 6,300 bottles for the nine month period are significantly lower than the current year budget.</p> <p>Due to increased competition the company may not see any further sales of super vitamin and a provision is required for the remaining inventory at 30 September 2021.</p> | <p>Enquire with management as to plans to dispose of/sell any remaining inventory.</p> <p>Review post year-end sales documentation to confirm if any further sales of super vitamin have occurred and if NRV is in excess of carrying cost.</p> <p>If appropriate, ensure items have been included in inventory provision.</p> |
|---|--|

Requirement 2 – Analyse which balances should be included in trade receivables circularisation

Birch Retailers plc – £6,940

Birch Retailers Ltd is one of NC&T's largest customers and has continued to make significant sales during the CY generating 11% of revenue. There is a risk that this balance may be understated and we should therefore include within our sample for testing.

Fresh Fruits Deluxe Ltd – £27,543

Fresh Fruits Deluxe Ltd has been cited to be in financial difficulty and have unpaid invoices past the credit terms of 60 days. There may be issues concerning recoverability of this balance therefore should be included within our sample.

Harry's Food Coop – £4,230

There is an on-going dispute over an invoice from over three months ago and the customer is currently refusing to pay the full amount due. This balance should be selected as it may be overstated.

Mayburn Farm Shop – (£1,590)

Mayburn Farm Shop has a negative balance per the report. This may be a result of the company being a customer as well as a supplier and purchases and sales being offset against each other. Therefore, this balance should be selected to confirm the correct amount due by NC&T.

Barnbury Food Group plc – £75,980

The customer is one of NC&T's largest customers. The customer is also on a payment plan due to being in some financial difficulty and has invoices outstanding past the normal credit terms (60+ days). This may indicate a risk over recoverability of the balance and should be selected.

Requirement 3 – Briefing note regarding internal audit department of NC&T

Strengths of IAD

- The head of IAD is an experienced internal audit professional and also has relevant sector experience. This results in suitable leadership of the work of the IAD which should aid in ensuring the quality of work performed.
- Gillian and Ollie hold relevant professional qualifications, including internal audit qualifications and, therefore, are sufficiently trained for their roles.
- There is a formal audit programme agreed annually and this is signed off by NC&T's board. This will ensure that a risk-based approach has been adopted in the audit planning and focus is placed on those business areas with a higher level of risk.
- Formal and structured audit work programmes are created using specific software and include appropriate reference to Internal Audit standards.. This helps to ensure that work is carried out consistently and in accordance with best practice.

Weaknesses of IAD

- Tanya is carrying out a dual function as finance manager and internal audit manager. This raises concerns over her independence as she may consequently review work that either she has completed herself, or work completed by her finance colleagues and, therefore, not be objective in identifying any issues.
- The head of IAD reports directly to the finance director. While it may be appropriate to supplement the reporting line through reporting to the financial director to ensure sufficient status in the organisation, lack of independent oversight could impact the overall effectiveness of the IAD and the appropriateness of responses made by management to its recommendations.
- The department has only carried out five of the ten planned internal audit reviews for the year. The internal audit department may not be seen to be adding value if it is unable to complete the intended work and this may impact its ability to carry out further planned reviews in a timely manner.

Conclusion

There are a number of strengths of the IAD, however at this time we cannot place reliance on its work. This is due to concerns over the objectivity of internal audit due to the lack of independence of reporting lines and Tanya carrying out a dual role.

QUESTION 2 (20 marks)

| Requirement 1 – Analyse results of the outputs of the audit data analytics exercise | Requirement 2 – Further procedures |
|---|--|
| <p>The total gross payroll costs per ledger of £6,839,235 does not agree to the payroll listing of £6,371,475.</p> <p>Although management has indicated that there are typically reconciling items there is a risk that there are invalid entries included and gross payroll is overstated.</p> | <p>Inspect management's reconciliation of the payroll listing to the ledger to confirm it is accurate.</p> <p>Confirm a sample of reconciling items to supporting documentation.</p> |
| <p>The employee numbers do not reconcile appropriately.</p> <p>The opening number of employees is 190, there are 81 new hires and 88 terminations resulting in an expectation of 183 employees at the end of the year. However, the summary of the ADA shows closing number of employees in November as 188.</p> <p>This may be indicative of missing or additional invalid employees on the payroll listings which would result in a misstatement of employee numbers.</p> | <p>Inspect the monthly headcount analysis reports for any known variances which may explain the identified difference..</p> <p>For a selection of new hires obtain a copy of new employee forms and ensure that there are appropriate approvals.</p> <p>For a selection of terminations trace to termination forms and ensure they were terminated from the payroll on the authorised date of their termination.</p> |
| <p>The payroll costs for the month of November 2021 are much lower in comparison to the other months. This appears unusual given that there has been no significant change in employee numbers in November 2021 and could be indicative of costs not being recorded in the correct period or missing payroll records resulting in payroll costs being understated.</p> | <p>Enquire from management as to the reason for lower payroll costs for the month of November.</p> <p>Inspect breakdown of payroll listing for November 2021 to identify any potential omissions and reconcile total payroll cost to payroll costs per bank statements.</p> |

| | |
|---|---|
| <p>The average monthly pay has increased for 2020/21 which is expected to be due to inflationary pay increases awarded in January of each year.</p> <p>There is a significant increase in average monthly gross pay in April 2021, but no corresponding increase in 2020. This is expected to be due to no bonus being payable in April 2020 in respect of the financial year ended 30 November 2019 and the increase in April 2021 due to any bonus due in respect of the year ended 30 November 2020.</p> | <p>Obtain confirmation of the approved bonus paid in April 2021 and payment via the company's bank statements.</p> <p>Obtain confirmation of incremental salary award for staff in January 2021.</p> |
| <p>The current year average number of employees has varied during 2020-21. However, the average has remained between 180 and 190 in line with our understanding of the company.</p> | <p>No further analysis required.</p> |
| <p>There are duplicate bank accounts in the data. Duplicate information on the payroll listing may be an indication of false employees within the listing resulting in payroll costs being overstated.</p> | <p>Obtain the monthly duplicate employee bank accounts exception report confirming the duplicate account numbers noted and that this has been reviewed and approved by the finance manager.</p> <p>Request supporting documentation to validate the duplicate employee bank accounts such as the approved new employee forms for the respective employee.</p> |

QUESTION 3 (15 marks)

Requirement 1 – Analyse any identified breaches by Golden of the FCA CASS rules and recommend improvements to its existing processes

CMAR monthly returns

The CMAR return is scheduled to be submitted on the 10th of the following month. The return must be submitted within 15 business days of the relevant reporting period (15th of each month), allowing for any weekends and public holidays, and Golden is likely to be in breach of this requirement. The return date should be scheduled earlier to ensure compliance with the 15 business day requirement.

Fred holds the title of manager which would indicate that he is not in a suitably senior position within Golden to be submitting the CMAR. The submission of the CMAR is the responsibility of the CF10a or SMF18 and they need to ensure that the form is fully and accurately completed and submitted by the deadline and should therefore be undertaken by someone suitably senior. The CF10a role should be reallocated to either a director or a senior manager within Golden.

Client monies

Client bank accounts 4 and 5 are inappropriately named under the CASS rules. The bank accounts must expressly be held in the firm's name and clearly identified as client money.

Monies received from clients are being inappropriately placed into Golden's own bank account in breach of the CASS rules. Golden must stop this practice and ensure that all client money is received directly into a client bank account rather than being first received into the firm's own account and then segregated.

Fred only performs an internal reconciliation of client money held in transaction accounts to client money actually held. This reconciliation is also only performed monthly. There should also be an external reconciliation between Golden's record of client money bank accounts and the actual bank account and all reconciliations should be carried out on a daily basis.

The suspense account is only reviewed quarterly depending on time available. There is a risk that errors are not detected in a timely manner resulting in errors within the client accounts. There should be a formal process in place to follow up and investigate errors in reconciliations on a regular basis.

Requirement 2 – Explain, with examples, the policies and procedures that should be established within Trusty LLP to maintain a system of quality control at the firm level

Leadership responsibilities for the quality within the firm

The firm shall establish policies and procedures that establish a tone at the top of the firm that promotes an internal culture of quality. Policies will require partners to assume ultimate responsibility for the systems of quality control.

For example:

- Training seminars, mission statements or inclusion in the firm's internal training material.
- or
- Assignment of management responsibilities so that commercial considerations do not override the quality of the work performed.

Relevant ethical requirements

The firm shall establish policies to obtain reasonable assurance that the firm and its staff comply with the relevant ethical requirements which include integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

For example:

- Firm-wide communication of independence requirements including registering of shareholdings, annual independence declarations and the process for non-compliance.
- or
- Establishment of appropriate criteria to address familiarity threats like the rotation of the senior personnel.

Acceptance and continuance of client relationships and specific engagements

The firm shall establish policies and procedures to obtain reasonable assurance that the firm has the competencies, capabilities and resources to undertake a new or continuing engagement and the client has sufficient integrity.

For example:

- Documented acceptance procedures to confirm competence, capabilities, including industry specific knowledge and resources for new engagements.

or

- Ensure the firm has experts available if required.

or

- Inquiry of other firm personnel or third parties such as bankers, legal counsel and industry peers.

Human resources

The firm shall establish policies and procedures to provide it with reasonable assurance that its staff have the necessary skills, competence and ethical principles, including adequate remuneration policies to perform engagements.

For example:

- Processes to ensure everyone in the firm receives a formal assessment regularly on the basis of established criteria and that there are policies for dealing with underperformers.

or

- Establishment of a system to monitor the workload and availability of engagement partners to ensure they have sufficient time to adequately discharge their responsibilities.

or

- Continuing professional development, including training courses.

Monitoring

The firm shall establish a monitoring process designed to provide it with assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively.

For example:

- The internal review of selected engagements to ensure adherence to firm best practise and adherence to professional standards and relevant legislation.

or

- The firm monitoring of the continuing professional development of staff and the provision of training for such.

QUESTION 4 (25 marks) Efficient Turbines Group Limited (Efficient)

Requirement 1 – Analyse the cashflow forecasts and evaluate the reasonableness of the assumptions

The following analyses the cashflow forecast of Efficient, prepared by Phyliss Lee and evaluates the reasonableness of the assumptions.

Period covered

To comply with ISA (570) auditors are required to gain assurance that management's assessment of going concern has covered a period of least 12 months from the balance sheet signing date.

The date of signing of the group financial statements is planned for 1 February 2022, but the cashflow forecasts only cover the period to 30 September 2022 rather than the 12 months to 31 January 2023 and are therefore not sufficient.

Revenue from sales of slip rings

Cash inflows from sales of slip rings are forecast to increase by 5.2% through 2022 with total income of £91.8m. However, excluding the £2m revenue expected in September 2021, but actually received in October 2021, there is only £50m of signed contracts in place for the upcoming financial year. There is a risk that the forecast income is not appropriate and forecasts have been overstated.

Revenue from sales of parts

Total cash inflow for revenue from sales of parts is forecast to increase by 2% which is in line with the price increase approved from 1 October 21 and appears reasonable.

Revenue from repair contracts

Spares has won a new five year £10m contract and has included £0.5m of cash inflows in Q3 and Q4. This appears to be a proportion of the revenue over the contract ($\text{£10m} / 5 \text{ years} / 4 \text{ quarters} = \text{£0.5m per quarter}$) which may not reflect the actual payment terms of the contract.

Spares has five repair contracts renewing in 2022 and it has assumed that these will be renewed within cashflow forecasts. As Spares operates in a competitive market, there is no guarantee that these five contracts will all be renewed and therefore there is a risk that cash inflows could be overstated.

Purchases

Purchases are forecast to remain constant at £8.8m per quarter. This appears unusual given the assumption that significant contracts will be renewed and an overall increase in revenue which will have associated costs. There is a risk that these costs are understated and do not include recognition of costs for new revenue contracts.

Property, Plant & Equipment

There is an increase of £2.5m in PP&E cash outflows which is in line with the contracted purchase of the industrial unit, cost £1.5m, and machinery cost of £900k in Q2 and would appear reasonable.

Wages & salaries – Turbines & Spares

Wages and salaries are expected to increase by 2.7% which is likely to be a result of the pay increase of 1% on 1 January 2022 and payment of bonus in Q3 of £0.8m for the year ended 30 September 2021. However, Spares has indicated that it plans to recruit additional engineers for its new site (entry date 25 March 2022) and therefore it would be expected that wages and salaries would increase in Q3 and Q4 and may be understated.

Employers' NI & pensions

Employers' NI and pensions is forecast to increase by 11%. While it is expected that there will be a small rise during the year due to the pay award and an increase in Q2 due to payment of the bonus, the increase in Q3 and Q4 appears unusual given there is not a corresponding movement in the wages and salaries and the overall total group wages and salaries has only increased by 2.8%. Therefore there is a risk that costs for Employers' NI and pensions are overstated.

Other costs, including insurance

Excluding the one-off cost in 2021, Efficient is forecasting a 16% drop in other costs through 2022 which is a significant cost saving and appears unusual given the forecast increase in revenue and staff numbers as well as the purchase of the new manufacturing site and therefore the cash outflow may be understated.

Requirement 2 – Evaluate each of the outstanding matters from the audit of Spares and confirm any further actions required by the audit team

| Evaluation of outstanding matter | Further actions |
|--|---|
| <p><i>Year end inventory provision</i></p> <p>The year end inventory provision has not been calculated in accordance with the group accounting policy ('GAP'), resulting in a provision of £135k which is £53k higher than our calculation using the GAP.</p> <p>This is a potential material understatement of inventory.</p> | <p>Obtain a listing of all the parts included within the provision and confirm from review of post year-end transactions that these items have not been used and are therefore suitable to be written off.</p> <p>Confirm with management plans for disposal of the provided for parts.</p> |
| <p><i>Trade payables</i></p> <p>The trade payables balance at 30 September has been reduced for the £61k of parts returned but the return has not been confirmed by the supplier as no credit note has been issued.</p> <p>There is a risk that trade payables are understated at the year end.</p> | <p>Inspect the despatch note confirming the date the parts were returned and the quantity returned to confirm that this was in September.</p> <p>Obtain confirmation from EXZ Components Ltd as to the status of the credit note, including receipt of the returned goods and cancellation of the original invoice.</p> |

| | |
|--|--|
| <p><i>Compensation claim</i></p> <p>The accident occurred pre year-end and despite correspondence to Spares indicating that the counterparty is claiming for injuries, there is no provision or reference to the claim in the draft financial statements.</p> <p>There is a risk that provisions may be understated within the financial statements.</p> | <p>Obtain the legal confirmation letter from Spares lawyers to confirm an estimate of the potential damages payable and the likelihood of the claim being awarded in the counterparty's favour.</p> <p>Obtain representations from management as to their assessment of the likelihood of the case being awarded against Spares within the management representation letter.</p> <p>Confirm whether Spares has appropriate insurance in place that will cover the company for any potential claim.</p> |
|--|--|

| | | |
|---|----------------------|--|
| Marking Schedule Assurance and Data December 2021 Question 1 | Candidate No. | |
| | Batch No. | |

| | Marks available | Marker marks | Marks awarded |
|--|-----------------|--------------|---------------|
| Requirement 1(a) – Analysis of audit risks | | | |
| CH-52 | | | |
| GP-420 & Gp-420o | | | |
| FA-64 | | | |
| SS-17 & SS-1-7 | | | |
| Tropical | | | |
| Pineapple and Lime | | | |
| Super Vitamin | | | |
| Other | | | |
| Restricted to (12 marks available) | 11 | | |
| Requirement 1(b) – Further substantive procedures | | | |
| CH-52 | | | |
| GP-420 & Gp-420o | | | |
| FA-64 | | | |
| SS-17 & SS-1-7 | | | |
| Tropical | | | |
| Pineapple and Lime | | | |
| Super Vitamin | | | |
| Other | | | |
| Restricted to (12½ marks available) | 11 | | |
| Requirement 2 – Trade receivables circularisation | | | |
| Birch Retailers Ltd | | | |
| Fresh Fruits Deluxe Ltd | | | |
| Harry's Food Coop | | | |
| Mayburn Farm Shop | | | |
| Barnbury Food Group | | | |
| Other | | | |
| Restricted to (9 marks available) | 8 | | |
| Requirement 3 – Internal Audit note | | | |
| Strength – experience of head of IAD | | | |
| Strength – qualifications | | | |
| Strength – annual audit programme | | | |
| Strength – software/ standards | | | |
| Weakness – dual role | | | |
| Weakness – reporting lines | | | |
| Weakness – internal audit plan incomplete | | | |
| Conclusion – no reliance/ objectivity impaired | | | |
| Other | | | |
| Restricted to (11 marks available) | 10 | | |
| Total mark awarded | 40 | | |

| | | |
|---|----------------------|--|
| Marking Schedule Assurance and Data December 2021 Question 2 | Candidate No. | |
| | Batch No. | |

| | Marks available | Marker marks | Marks awarded |
|--|-----------------|--------------|---------------|
| | | | |
| Requirement 1 – Analysis of ADA outputs | | | |
| Total gross payroll | | | |
| Employee numbers reconciliation | | | |
| November 2021 costs | | | |
| Average monthly pay | | | |
| Average monthly employees | | | |
| Duplicate account numbers | | | |
| Other | | | |
| Restricted to (11 marks available) | 10 | | |
| | | | |
| Requirement 2 – Further action | | | |
| Total gross payroll | | | |
| Employee numbers reconciliation | | | |
| November 2021 costs | | | |
| Average monthly pay | | | |
| Average monthly employees | | | |
| Duplicate account numbers | | | |
| Other | | | |
| Restricted to (10 marks available) | 10 | | |
| | | | |
| Total marks awarded | 20 | | |

| | | |
|---|----------------------|--|
| Marking Schedule Assurance and Data December 2021 Question 3 | Candidate No. | |
| | Batch No. | |

| | Marks available | Marker marks | Marks awarded |
|---|-----------------|--------------|---------------|
| Requirement 1 – Golden Wing | | | |
| CMAR date incorrect | | | |
| CF10a | | | |
| Client bank account | | | |
| Receipt of client monies | | | |
| Reconciliations | | | |
| Suspense account | | | |
| Other | | | |
| Restricted to (12 marks available) | 10 | | |
| Requirement 2 – Policies & Procedures | | | |
| Leadership responsibilities for quality with the firm | | | |
| Relevant ethical requirements | | | |
| Acceptance & continuance of client relationships & specific engagements | | | |
| Human resources | | | |
| Monitoring | | | |
| Other | | | |
| Restricted to (5 marks available) | 5 | | |
| | | | |
| Total marks awarded | 15 | | |

| | | |
|---|----------------------|--|
| Marking Schedule Assurance and Data December 2021 Question 4 | Candidate No. | |
| | Batch No. | |
| | Marker No. | |

| | Marks available | Marker marks | Marks awarded |
|--|-----------------|--------------|---------------|
| Requirement 1 – Analyse cashflow & evaluate assumptions | | | |
| Period covered | | | |
| Revenue – slip rings | | | |
| Revenue – parts | | | |
| Revenue – repair contracts | | | |
| Purchases | | | |
| Property, Plant & Equipment | | | |
| Wages & salaries | | | |
| Employers' NI & pensions | | | |
| Other costs, including insurance | | | |
| Other | | | |
| Restricted to (18½ marks available) | 16 | | |
| Requirement 2 – Outstanding matters | | | |
| Year end inventory provision | | | |
| Evaluation | | | |
| Further actions | | | |
| Trade payables | | | |
| Evaluation | | | |
| Further actions | | | |
| Compensation claim | | | |
| Evaluation | | | |
| Further actions | | | |
| Other | | | |
| Restricted to (10 marks available) | 9 | | |
| | | | |
| Total marks awarded | 25 | | |