



TEST OF PROFESSIONAL SKILLS EXAMINATIONS EXAMINERS' REPORT

Assurance & Data

December 2022

SECTION 1 (40 MARKS)

Requirements

Candidates were asked to:

QUESTION 1 – Perform a substantive analytical review to evaluate the reasonableness of each payroll category relating to administration and production staff for the year ended 31 October 2022.

(9 marks)

QUESTION 2 – Analyse the reasons for any variances between the expectations and actual payroll costs for the year.

(7 marks)

QUESTION 3 – Recommend what further procedures would need to be performed to confirm the identified reasons for any differences between expected and actual payroll costs.

(9 marks)

QUESTION 4 – Analyse the cashflow forecasts provided and evaluate the reasonableness of the assumptions and information provided.

(15 marks)

Areas done well

Question 1 – perform a substantive analytical review to evaluate the reasonableness of each payroll category

Most candidates attempted all calculations and scored well, particularly for the administration and production salary costs, correctly applying the salary increases and recognising where the increases were part way through the financial year. The strongest candidates set out their results in a summary table with the variances, which enabled them to come to an overall conclusion on which variances required to be followed up.

Question 2 – analyse the reasons for any variances between the expectations and actual payroll costs for the year

Generally, the candidates were able to explain the variances which arose from the error with the private healthcare for family members, the redundancy payments and the specialist contractors' costs, relating these back to the original expectations. The strongest candidates identified the impact of hourly paid staff within production whose pay rates varied by grade.

Question 3 – recommend what further procedures would need to be performed

Most candidates were able to recommend appropriate procedures for the categories of variance they had identified.

Question 4 – analyse the cashflow forecasts provided and evaluate the reasonableness of the assumptions and information provided

Candidates scored well in this question, covering the main issues such as the overall period of the forecasts, the failure to include overdraft interest, corporation tax, carbon tax and capital expenditure for the plant conversion in the forecasts, the reasons for the increases in the customer receipts and the quarterly changes in the production costs.

Areas done less well

Question 1 – perform a substantive analytical review to evaluate the reasonableness of each payroll category

Where candidates failed to pick up marks, they had either used the prior year salary figures or client's actual figures to calculate the pension and NIC contributions instead of the expected salary figures they had already calculated, or they used an average of the 2021 and 2022 average employee numbers instead of the 2022 average employee numbers alone.

Private healthcare costs were quite often missed within expected administration staff costs.

Some candidates attempted to include redundancy figures in their expectation calculations when the total redundancy payments had not been provided in the question.

The bonus was quite often excluded from production pay expectation calculations.

Also, a number of candidates just used prior year contractor's costs for their expectation rather than flexing for the change in the number of contractors in the year losing an "easy" mark.

There was quite a high number of candidates who had careless mathematical errors (e.g. transposition errors, or totals that did not agree with the calculation shown). In addition, some candidates applied the incorrect % increases and/or benefits/bonus amounts to the respective groups i.e. admin rates to production and vice versa.

Question 2 – analyse the reasons for any variances between the expectations and actual payroll costs for the year

Although some candidates had correctly calculated the bonus payments in Question 1, they did not identify that the question said the bonus had not yet been accrued into the accounts and that was a reason for the difference.

Fewer candidates identified that the reason for the lower expected pension and NIC on the administration salaries was because the salaries themselves were lower.

Some candidates suggested generic reasons for the differences between the expectations and actual figures, such as a failure to apply pay increases appropriately or continuing to pay staff who had been made redundant, instead of focusing on the specific issues in the scenario.

Question 3 – recommend what further procedures would need to be performed

Although the candidates identified the procedures to be performed and the supporting evidence needed, they did not always extend the procedures as far as redoing their SAR calculations to make sure that the variances were now eliminated with the additional information.

The weakest candidates just described general tests for payroll rather than focusing on tests to confirm the differences between expectations and actuals.

Question 4 – analyse the cashflow forecasts provided and evaluate the reasonableness of the assumptions and information provided

Some candidates drifted into talking about going concern issues because of the breach in the overdraft and the capital expenditure, which was omitted from the forecasts, instead of concentrating simply on the reasonableness of the assumptions. Other candidates suggested the audit evidence which would be needed to verify the assumptions, forgetting that they were only required to assess the assumptions used to compile the cash flow with reference to the information in the scenario.

Some candidates failed to mention the impact (overstatement / understatement) of their explanation on the cashflow so prematurely finished their answer and limited the credit that could be awarded. For example, a

candidate would say “the UK government is considering introducing a new carbon tax at 20%” but failed to obtain further credit by mentioning “the projected cashflow forecast position may therefore be overstated.”

In order to score better, candidates should take account of the following comments:

Where calculations are required and the data is being copied and pasted from excel, ensure that the workings are shown, so that markers can see clearly how the answers have been calculated. Always include a summary table, where variances are identified and ensure that this is done at a detailed level (i.e. separate out salary, NIC, pension), not simply a total (all employment costs), as this will then direct the candidates to the individual items which need to be explained in the subsequent questions.

Do not include generic audit tests to pad out an answer when specific matters from the scenario are being asked for, as this will not result in any extra marks. Read the question carefully and be clear on what it is you are being asked to do.

When providing analysis on assumptions for a cashflow- ensure to include impact of issue on cashflow (overstatement / understatement).

SECTION 2 (18 MARKS)

Requirements

Candidates were asked to:

QUESTION 5 – Evaluate the acceptance risks in relation to Japanese Exports Group Ltd.

(11 marks)

QUESTION 6 – Evaluate the matters that should be considered to determine whether reliance can be placed on the component auditor and conclude on whether it is likely that reliance can be placed on the component auditor.

(7 marks)

Areas done well

Question 5 – evaluate the acceptance risks

Most candidates answered this question well identifying most of the key points, including the resignation of the previous auditors, the issues relating to the subsidiary in Japan, such as the language barrier, need for sufficient resources and the difficulty of conducting ID procedures for the overseas directors. Reputational effects of the press coverage of the fraud and potential financing issues were also identified by most candidates. As well as identifying the points, the evaluations were all mostly well done.

Question 6 – evaluate the matters that should be considered to determine whether reliance can be placed on the component auditor

Most candidates included the ethical requirements / independence issues and the assessment of professional competence, expanding to include the reasons why these requirements were met by the component auditors.

Only the better candidates included the group involvement with the component auditor and the regulatory environment issues.

Areas done less well

Question 5 – evaluate the acceptance risks

The weakest candidates included audit risks rather than acceptance risks in their answers.

Question 6 – evaluate the matters that should be considered to determine whether reliance can be placed on the component auditor

Some candidates missed out on credit where either they only included the heading for each of the matters to be assessed but did not actually relate these specifically to the scenario or copied large sections of text from their notes about the audit standards and the reasons for having to assess component auditors.

Not all candidates realised that the seriousness of the independence issue with the component auditors and the difficulties experienced by the previous auditors in accessing information, meant that reliance could not be placed on the component auditors.

Not all candidates included a conclusion of their findings – this was specifically requested.

In order to score better, candidates should take account of the following comments:

Ensure that you state clearly what each of the areas to be evaluated are, before describing in detail the issues from the scenario, as there may be half a mark for identifying and stating these.

Include a conclusion along with detailed information/reasoning to support the conclusion reached.

SECTION 3 (24 MARKS)

Requirements

Candidates were asked to:

QUESTION 7 – Prepare information in a suitable format for Ewa in which you identify the weaknesses, including any weaknesses concerning the quality of the data captured, evaluate the implications and recommend improvements to Spin’s data capture and management processes for Vision.

(12 marks)

QUESTION 8 – Prepare information suitable for inclusion in a briefing note in which you:

a. Analyse and evaluate the results of the outputs from SPS to highlight any concerns over the validity, accuracy and completeness of the data relating to payroll and the impact this may have on the external auditor’s work; and

b. describe, where applicable, what further information the external auditor may request or the steps that Spin should take to rectify any issues identified.

(12 marks)

Areas done well

Question 7 – prepare information in which you identify the weaknesses, including any weaknesses concerning the quality of the data captured, evaluate the implications and recommend improvements to Spin’s data capture and management processes for Vision

Most candidates identified the weaknesses around delivery date, the non-tailored questionnaire, the provision of household income and manual collation of the survey results.

Question 8 – prepare information in which you analyse and evaluate the results of the outputs from SPS to highlight any concerns over the validity, accuracy and completeness of the data relating to payroll and the impact this may have on the external auditor’s work; and describe, where applicable, what further information the external auditor may request or the steps that Spin should take to rectify any issues identified.

Most candidates identified that no employer’s pension figures were given, that Blair Daniel data was missing, that the report lacked leavers dates and that there were undefined staff in the employee numbers although only the strongest candidates were able to correctly explain the implications of these issues.

Areas done less well

Question 7 – prepare information in which you identify the weaknesses, including any weaknesses concerning the quality of the data captured, evaluate the implications and recommend improvements to Spin’s data capture and management processes for Vision

Very few candidates identified the weakness around how the product development team analysed the data.

Most candidates picked up on the manual entering into the spreadsheet would be prone to human error, however many failed to provide full implication that this would therefore lead to management making incorrect decisions if data is incorrect.

Question 8 – prepare information in which you analyse and evaluate the results of the outputs from SPS to highlight any concerns over the validity, accuracy and completeness of the data relating to payroll and the impact this may have on the external auditor’s work; and describe, where applicable, what further information the external auditor may request or the steps that Spin should take to rectify any issues identified.

Some candidates did not attempt to evaluate the data captured or did not evaluate it for each of the KPIs.

Most candidates failed to mention that the total number of employees noted in the initial background info of the question was 340 which did not match the “No of employees per department” report (329).

Only the strongest candidates understood that the question was asking about the validity of the data from this report as opposed to auditing the payroll figures from the accounting records directly. A number of candidates just gave a list of generic audit procedures rather than identifying what Spin needed to do to correct the reports to make them reliable for use in the audit.

In order to score better, candidates should take account of the following comments:

The question asked about how Spin could rectify the issues with the data; this required the candidates to have read the question properly and understood what their role in the scenario was – i.e. they were the internal auditor working for the company. Many candidates answered the question as if they were the external auditor.

Candidates are reminded to also use information provided in the question background should also be used as part of your answer (340 employees vs 329 per report). Easy marks were often missed as candidates concentrated on the appendices.

SECTION 4 (18 MARKS)

Requirements

Candidates were asked to prepare information suitable for inclusion in audit workpapers in which you:

QUESTION 9 – Evaluate each of the outstanding matters noted in Appendix 1 explaining any impact on the financial statements.

(6 marks)

QUESTION 10 – Design audit procedures to gather audit evidence to resolve each of the outstanding matters.

(6 marks)

QUESTION 11 – Prepare a summary of audit misstatements noting, where applicable, any potential adjustments arising from the outstanding matters and conclude, with explanation, on which items may require adjustment.

(6 marks)

Areas done well

Question 9 – evaluate each of the outstanding matters

This was reasonably well answered with candidates identifying and explaining the FCA investigation, PPE double counting and the customer in administration.

Often the evaluation of whether the matters required adjustment or not were included in this question, rather than in Question 11. Marks were still awarded where the evaluations were appropriate.

Question 10 – design audit procedures to gather audit evidence to resolve each of the outstanding matters.

For each of the matters identified, the candidates were generally able to suggest sensible further audit evidence needed, although in some instances far more procedures were suggested than would be necessary for the number of marks available.

Question 11 – prepare a summary of audit misstatements

Most candidates were able to set out the summary with the appropriate journal entries taken from the matters they had identified. The better candidates included a summary and a conclusion on the unadjusted differences.

Areas done less well

Question 9 – evaluate each of the outstanding matters

Although the candidates did identify the bonus accrual as an issue, few of them explained that the issue arose from the bonus firstly being assessed on budgeted results, then being revised for the actual results. The value of the difference was also incorrectly assessed, with candidates comparing the client's actual recalculated bonus to the auditor's assessment of the bonus, instead of the bonus which had already been accrued based on the budget. Very few stated that the current bonus accrual was overstated.

Very few commented that PPE was overstated at year end relying instead on the fact the adjustment had already been made.

Question 10 – design audit procedures to gather audit evidence to resolve each of the outstanding matters.

The weakest candidates discussed reviewing internal controls around PPE additions which was not relevant to the question asked.

Question 11 – prepare a summary of audit misstatements

This may have been time pressured with many candidates missing out the summary of misstatements or not including columns to indicate whether each item was material and whether it was to be adjusted or not. Where summaries were included, not all candidates included a summary and conclusion on the unadjusted differences, which is a key part at the end of the audit.

In a number of cases, it was apparent that this table was copied / pasted from old questions as quite often the figures for adjusted / unadjusted amounts bore no resemblance to those in this question and contained generic comments.

In order to score better, candidates should take account of the following comments:

Candidates should ensure that they first set out the issue to be evaluated clearly, rather than going straight into an explanation. They must assume that they are addressing someone who does not have prior knowledge of the issue and there can be marks available for this.

Where the question and appendices provide details of amounts involved utilise this information to assess and explain the impact on the financial statements e.g. over/under statement, material etc.