



## 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 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 available on [icas.com](https://www.icas.com).**

## 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></p> <p>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></p> <p>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></p> <p>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>
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## **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 inaccurate.</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 employee numbers being incomplete or invalid.</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 data being incomplete.</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 data being invalid.</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 10<sup>th</sup> of the following month. The return must be submitted within 15 business days of the relevant reporting period (15<sup>th</sup> 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 management at the firm level**

***The firm's risk assessment process***

The firm shall design and implement a risk assessment process to establish quality objectives, identify and assess quality risk and design and implement responses to address the quality risks.

For example:

- Set up a risk assessment team, with responsibility for designing and implementing a formal risk assessment process.

***Governance and leadership***

The firm shall establish quality objectives that address the firm's governance and leadership, which establishes the environment that supports the systems of quality management, including: the firm demonstrates a commitment to quality through an appropriate culture, leadership is responsible and accountable for quality and resource needs are planned for and resources are obtained, allocated or assigned in a manner that is consistent with the firm's commitment to quality.

For example:

- Assignment of management responsibilities so that commercial considerations do not override the quality of the work performed, such as a quality management board member

***Relevant ethical requirements***

The firm shall establish quality objectives to address the fulfilment of responsibilities in accordance with the relevant ethical requirements, including: the firm and its personal understand the relevant ethical requirements and fulfil their responsibilities in relation to these requirements.

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***

The firm shall establish quality objectives that address the acceptance and continuance of client relationships and specific engagements, including: judgements are based on information obtained about the engagement and ethical values of the entity that is sufficient to support such judgements and financial and operational priorities of the firm do not lead to inappropriate judgements.

For example:

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

## ***Resources***

The firm shall establish quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable the design, implementation and operation of the system of quality management including: human resources, technological resources, intellectual resources and service providers.

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

- Continuing professional development, including training courses.

## **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>

<b>Marking Schedule</b>  <b>Assurance and Data</b>  <b>December 2021</b>  <b>Question 1</b>	<b>Candidate No.</b>	
	<b>Batch No.</b>	

	Marks available	Marker marks	Marks awarded
<b>Requirement 1(a) – Analysis of audit risks</b>			
CH-52			
GP-420 & Gp-420o			
FA-64			
SS-17 & SS-1-7			
Tropical			
Pineapple and Lime			
Super Vitamin			
Other			
<b>Restricted to (12 marks available)</b>	<b>11</b>		
<b>Requirement 1(b) – Further substantive procedures</b>			
CH-52			
GP-420 & Gp-420o			
FA-64			
SS-17 & SS-1-7			
Tropical			
Pineapple and Lime			
Super Vitamin			
Other			
<b>Restricted to (12½ marks available)</b>	<b>11</b>		
<b>Requirement 2 – Trade receivables circularisation</b>			
Birch Retailers Ltd			
Fresh Fruits Deluxe Ltd			
Harry's Food Coop			
Mayburn Farm Shop			
Barnbury Food Group			
Other			
<b>Restricted to (9 marks available)</b>	<b>8</b>		
<b>Requirement 3 – Internal Audit note</b>			
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			
<b>Restricted to (11 marks available)</b>	<b>10</b>		
<b>Total mark awarded</b>	<b>40</b>		

<b>Marking Schedule</b>  <b>Assurance and Data</b>  <b>December 2021</b>  <b>Question 2</b>	<b>Candidate No.</b>	
	<b>Batch No.</b>	

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

<b>Marking Schedule</b>  <b>Assurance and Data</b>  <b>December 2021</b>  <b>Question 3</b>	<b>Candidate No.</b>	
	<b>Batch No.</b>	

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



<b>Marking Schedule</b>  <b>Assurance and Data</b>  <b>December 2021</b>  <b>Question 4</b>	<b>Candidate No.</b>	
	<b>Batch No.</b>	
	<b>Marker No.</b>	

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