



# **TEST OF PROFESSIONAL SKILLS EXAMINATIONS EXAMINERS' REPORT**

**Assurance & Data**

**August 2022**

## QUESTION 1 (40 MARKS)

### Requirements

Candidates were asked to:

1. For the 10 month period to 31 July 2022, calculate an expectation of the total interest expense of Fins and the variance, if any, against the actual interest expense per the company's management accounts. (Assume the base rate applicable during the period is 2.25%).  
(5 marks)
2. a) Evaluate the results of the audit data analytic exercise and your calculations for requirement 1 for the purpose of the planning analytical review (note: no further expectations are required to be calculated).  
(17 marks)
- b) Evaluate any additional audit risks identified from review of the information gathered.  
(5 marks)
- c) Plan the overall audit approach for each audit risk identified as part of your analysis at requirements (a) and (b).  
(13 marks)

### Areas done well

#### *Requirement 1 – calculate an expectation of the total interest expense*

Most candidates attempted all three calculations resulting in expectations for each interest charge. Better candidates provided a total expected finance costs figure and compared this to the management accounts, resulting in an overall variance.

The majority of candidates correctly calculated the bank loan element of the calculation (expectation of £52,083) and the parent loan expectation of £28,333.

#### *Requirement 2(a) – Evaluate the results of the audit data analytic exercise*

A well attempted section overall, with most candidates working their way logically through the scenario information that had been provided. Most candidates provided the appropriate audit risk.

Areas that scored highly were:

- Revenue: candidates picked up that there was a new product launched and prices increased in other products. Most candidates stated that there was a risk of overstatement in revenue due to lower sales than expected of the new product
- Administration expenses: Most candidates identified the marketing activity and that there was a risk of understatement
- Trade receivables: Candidates identified the risk of overstatement due to delays in customers paying due to Covid-19 and some customers in liquidation
- Inventory: Candidates identified that due to slow sales of the new product, there was an impact on stock levels and a risk of overstatement

The better candidates identified the new inventory management system as being a potential reason for the increase in non-current assets

*Requirement 2(b) – Evaluate any additional audit risks identified*

Of the three additional audit risks in the scenario, most candidates identified the going concern risk and referred to a couple of indicators relating to this risk. The risk arising from the legal action involving the new breathing regulator was also identified by many candidates.

*Requirement 2(c) – Plan the overall audit approach*

Where candidates had identified the risks above, they were able to suggest an appropriate audit approach.

Areas done less well

*Requirement 1 – calculate an expectation of the total interest expense*

A number of candidates based their interest calculations on the incorrect balances e.g., including both the original £472k in addition to the £1million new balance on the bank loan or using £180k limit or £150k old limit in the overdraft calculation.

Several candidates did not include the base rate in the interest rate that they used for their calculations. There were also scripts that extrapolated the calculations to 12 months before calculating the variances and calculations were based on incorrect periods e.g., 10 months instead of 12 months for the bank overdraft and 24 months instead of 12 months for the shareholder loan.

The weaker candidates did not provide an overall total expected interest charge and variance.

*Requirement 2(a) – Evaluate the results of the audit data analytic exercise*

The potential reasons for the movements in the gross profit margin compared to budget and prior year were not always explained well. Although candidates did refer to the increase in selling prices being offset by material cost rises and therefore not impacting on the margin, often there were references to lower sales of the regulator, but this would not reduce the gross profit margin %, rather it would reduce the actual gross profit figure.

If the new inventory management system had been identified as the reason for the increase in non-current assets, many candidates did not then identify that the restarting of the project could result in the initial costs being written off rather than being capitalised. There was also some confusion as to which balance sheet items would be included in non-current assets, with a few candidates referring to the loans or inventory as possible reasons for the increase in the balance.

The allocation of expenses between cost of sales and administration was not always clear with some candidates noting the advertising campaign and legal costs as explanations for the variances in gross profit margin.

When assessing trade receivables and inventory days a surprising number of candidates tried to evaluate the number of days and discussed 'inventory days overstated' and 'trade receivables days overstated' rather than using the ratios to analyse the underlying balances. This therefore received no credit.

Few candidates recognised the audit approach to interest expense included increasing the level of professional scepticism within the team, increasing unpredictability of testing etc.

*Requirement 2(b) – Evaluate any additional audit risks identified*

The lack of a guarantee for the parent company loan was identified by some candidates as potentially affecting going concern, but few candidates identified that this could also affect the disclosure of the loan as either a current or long-term liability.

*Requirement 2(c) – Plan the overall audit approach*

A number of candidates relied too heavily on copy/pasted standard audit approach rather than applying more specifically to the scenario. This meant that time was wasted on including irrelevant generic points that often did not make sense or have any link to the scenario.

In addition, there was evidence from many candidates that they did not fully understand the linkage between the audit risks of a balance (e.g., over or understated) and how this links to the selection of an appropriate audit approach, for example to address a completeness, existence or valuation assertion. Instead, many candidates just included a list of generic tests from their notes which if lucky, covered the relevant assertion to a limited extent but were unfortunately not appropriately tailored.

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

Where the question includes multiple, linked, parts, candidates should consider presenting their answers in a single table. Many candidates did not use a table format. It is further recommended that candidates use word tables, rather than excel, for non-numerical answers.

Ensure that answers are specific and tailored to the question. Where candidates have copied/pasted information from past papers/homework exercises, they need to consider this in the context of the question and the scenario and review and tailor accordingly. There were some papers where the items copied/pasted were not relevant e.g., systems controls and where the fictitious names of clients/employees were clearly from previous papers.

## QUESTION 2 (20 MARKS)

### Requirements

Candidates were asked to:

1. Prepare information, suitable for inclusion in an internal audit report, identifying any weaknesses in PitchWave's processes around customer subscriptions, music catalogues, contracts and royalty payments, analysing the implications of each weakness and recommending improvements.

(20 marks)

### Areas done well

#### *Requirement 1 – weaknesses in PitchWave's processes*

Candidates tended to use a tabular format effectively to focus their answers.

Most candidates answered this question well identifying unlimited users, audit log review, servers overloaded, customer data not backed up and royalty management software weaknesses consistently in their answers.

Stronger candidates developed their implications well and included the impact that the issue will have on the company i.e., loss of revenue if customers leave due to buffering issues.

### Areas done less well

#### *Requirement 1 – weaknesses in PitchWave's processes*

Fewer candidates correctly identified the servers being at capacity as a separate issue to its effect on poor service and therefore missed assessing the implications of this.

The weakness relating to maintaining bank details was not always identified with candidates talking more generally about holding unnecessary data as an issue.

Few candidates identified the implication of why the suspension on renewal date could lead to a breach in contract. Most focused on the effect on customers instead.

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

Ensure that the implication of each weakness is developed fully to explain the impact on the business, for example the dissatisfaction of subscribers could lead to them leaving and thus reduce revenue.

### QUESTION 3 (16 MARKS)

#### Requirements

Candidates were asked to:

1. Prepare information suitable for inclusion in a briefing note to the board of trustees where, for each of the identified KPIs, you:
  - a) Using the four areas of understanding of data capture, analyse the data capture considerations for each of the identified KPIs.  
(7 marks)
  - b) Evaluate the data capture method, analysing whether the data is appropriate to meet the needs of the KPI.  
(5 marks)
  - c) Recommend, where applicable, the relevant data capture methods and or data that would be most appropriate in order for management to assess each of the identified KPIs.  
(4 marks)

#### Areas done well

*Requirement 1(a) – analyse the data capture considerations for each of the identified KPIs*

Candidates who used a tabular approach with a section for each of the four areas of data capture for each KPI generally scored better as their answers were more focused.

*Requirement 1(b) – Evaluate the data capture method*

Where candidates attempted to evaluate the data captured they commonly identified that the data in respect of total number of visitors per month and the customer satisfaction was appropriate and that the data relating to the revenue streams was not sufficient.

*Requirement 1(c) – Recommend, where applicable, the relevant data capture methods and or data*

Where candidates successfully evaluated the data captured in 1(b) above they were generally able to develop this to make reasonable recommendations.

#### Areas done less well

*Requirement 1(a) – analyse the data capture considerations for each of the identified KPIs*

Some candidates did not refer to the four areas of understanding of data capture and just talked in general terms. This scored very little.

A number of candidates need to review the definitions of each area as there was sometimes confusion over what was meant by depth and quantity specifically.

Candidates need to be more specific on the form of the data capture to achieve full credit.

Very few candidates identified the issues around “Friends of the Tower” and them not receiving the customer satisfaction surveys.

*Requirement 1(b) – Evaluate the data capture method*

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

Candidates failed to gain marks for the cost per private function where they did not realise that it was the suppliers who needed to separate the costs per function on the invoices, rather than the charity doing it themselves.

Many candidates were not clear in stating if the KPI was appropriate or not, thus not achieving full credit.

*Requirement 1(c) – Recommend, where applicable, the relevant data capture methods and or data*

Some candidates focused more on specific data capture methods (fixating on use of OCR for example) rather than considering more practical recommendations.

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

Review the theory underpinning data capture.

Use each area of four areas of understanding to structure their answers.

## QUESTION 4 (24 MARKS)

### Requirements

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

1. Document, together with explanations, the classification and overall scope of work required for each of the components of IFES group.  
(6 marks)
2. Design tests of control to confirm the operating effectiveness of IFES's group controls and controls over the consolidation process.  
(12 marks)
3. Evaluate the draft group audit instructions.  
(6 marks)

### Areas done well

*Requirement 1 – Document, together with explanations, the classification and overall scope of work required for each of the components*

This was answered well with most candidates clearly assessing the significance of each component presented and using scenario well.

Most candidates presented their answer in a table which was a good format for this answer.

*Requirement 2 – Design tests of control to confirm the operating effectiveness of IFES's group controls*

Most candidates focused on inspection / reperformance tests which scored well.

Candidates logically worked through the scenario and provided a test for each of the controls provided.

*Requirement 3 – Evaluate the draft group audit instructions.*

Where this section was attempted, most candidates picked up on the requirement for the group auditor to calculate and communicate component materiality and the fact that this had not been done.

### Areas done less well

*Requirement 1 – Document, together with explanations, the classification and overall scope of work required for each of the components*

Some candidates copied and pasted all possible scopes of work for each component, however they need to develop a more scenario specific suggestion.

Some candidates did not specifically state the classification or their reasoning therefore not achieving full credit.



*Requirement 2 – Design tests of control to confirm the operating effectiveness of IFES's group controls*

A few candidates gave more substantive type tests e.g., assessing methods of impairment of goodwill rather than focusing on tests of control.

In some instances where tests were identified, candidates did not develop their points further to communicate what the control was testing e.g., review of internal audit plan was identified but noting whether this covered all subsidiaries was missed.

*Requirement 3 – Evaluate the draft group audit instructions.*

This may have been time pressured with a number of candidates either missing this out or seeming to copy and paste a general answer from their notes.

Instead of focusing on the information which was set out in Appendix 3 of the requirement and assessing whether it was appropriate or not, candidates focused on what they thought was missing from the audit instructions.

Very few candidates identified that the audit approach could not be the same as the prior year because Miller had just recently been appointed as auditor.

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

Candidates should ensure that they specifically answer the requirements for the scenario given and not just generic answers.

Candidates should ensure that they fully read requirements, that all elements of the requirement are covered in their answers and that unnecessary areas are not included.