

CAA GLOBAL

EXAMINERS' REPORT

October 2018

CAA Module 5 Models and Audit Trails

Introduction

The attached report has been written by the Principal Examiner with the aim of helping candidates, both those who are sitting the examination for the first time and using past papers as a revision aid and also those who have previously failed the subject.

The specimen solutions are based on one possible approach to modelling the scenario set but the examiners gave credit for any alternative approach which they considered to be reasonable.

Mike Hammer
Chair of the Board of Examiners

December 2018

General comments on Module 5

Module 5 aims to ensure that successful candidates can model data and develop an audit trail to document the work done.

Part I of this examination tests the ability to produce a complete and accurate model using sound and simple techniques, and the ability to perform reasonableness checks and automated checks throughout. Candidates are therefore expected to have a working knowledge of spreadsheets.

Part II of this examination tests the ability to produce an audit trail that documents all the work done, including the methods, the parameters, the data used, the checks performed and the results of those checks. This can be done in a separate sheet within the spreadsheet model or in a separate Word document.

It should be noted that there will generally be more marks available for Part II than for Part I to reflect the importance of good communication and documentation when producing models. Candidates should bear this in mind when considering how much time to allocating to each of these elements of the assessment.

General comments on Examination October 2018

The modelling element of this exam primarily required candidates to model cashflows dependent on death and survival, covered in Module 3.

This examination involved determining the life expectancy of cars based on a set of car failure rates. Candidates were provided with car failure rates by age for cars aged exactly 10 years and over. Candidates were required to check (but not amend) this data before using it to determine the life expectancy of cars which are exactly 10 and exactly 15 years old. Building on this initial scenario candidates were asked to produce further calculations considering the impact on car life expectancy of changing a car's engine oil each year and starting to change car tyres each year.

The most common reason for failure in this sitting (as in previous sittings) was due to an inadequate audit trail. When describing methodology, students should note that they need to state their methods and logic for every stage of the calculation clearly (in words rather than using formulae or Excel functions). The audit trail should enable a fellow analyst student to easily understand, review and check the model without reference to other documentation, such as the exam paper.

In order to demonstrate that the model is working as intended candidates are asked to document reasonableness checks which have been applied at each stage of the calculation. Marks are awarded for both recording and explaining these checks. The majority of candidates lost a number of marks by providing only limited evidence of these checks.

Candidates are strongly encouraged to look at the sample solutions provided to better understand the level of detail they should be aiming to produce in their audit trails.

END OF EXAMINERS' REPORT