

# CAA GLOBAL

## EXAMINERS' REPORT

October 2020

### 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 yet to pass 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.

Clifford Friend  
Chair of the Board of Examiners

October 2020

## **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 2020**

This examination involved the analysis of a number of current and proposed infrastructure loans. Candidates were provided with data for an existing portfolio of loans and were required to check (but not amend) this data before using it to determine the maximum, minimum and mean loan amounts in each currency issued. Candidates were asked to generate the expected cashflows for three potential new loan arrangements using the parameters for interest rate, discount rate and default rates provided. Candidates were required to summarise, on a suitable chart, further calculations investigating the net present value and internal rate of return for each potential loan in order to compare each of the options proposed.

The model produced should be robust and adaptable with as much automation as possible such that, for example, if an alternative set of parameters were used, the changes would feed through without further intervention. Candidates lost marks for copying and pasting the data between worksheets (as opposed to linking all future calculations to the raw data). The use of named data ranges can be helpful for understanding and adapting the model, particularly for key parameter values.

The most common reason for failure in this sitting (as in previous sittings) was due to an inadequate audit trail. When describing methodology, candidates should note that they need to state their methods and logic for each stage of the calculation clearly (in words rather than using formulae or Excel functions). Furthermore, a simple statement that a calculation has been done, with no explanation as to how, is not sufficient. 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**