CAA GLOBAL

EXAMINERS' REPORT

May 2022

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 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 also gave credit for any alternative approach which they considered to be reasonable.

Clifford Friend
Chair of the Board of Examiners

July 2022

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 candidate's 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 worksheet 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 allocate to each of these elements of the assessment.

General comments on Examination May 2022

This examination involved the analysis of the profitability of a unit linked investment product. Candidates were provided with projected monthly returns over a ten year period for a unit linked fund. Candidates were required to check (but not amend) this data before using it alongside parameters provided for charges, expenses and discount rates to determine the projected fund value at the end of a ten-year projection period. Candidates were asked to determine the expected fund value for both a single premium and regular premium product. Candidates were required to summarise, on a suitable chart, the results of further calculations to determine the minimum regular premium that would result in a profit using the data and parameters provided.

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. Marks were not awarded for copying and pasting the data between worksheets. Candidates should have linked 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. Some candidates could have achieved higher marks if their audit trails had included more detail. When describing their methodology, candidates should note that they need to state their methods and logic for each stage of the calculation clearly. This should be done 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. The audit trail should provide sufficient detail to enable another analyst to understand each stage in the calculation. 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