



Data Analytics Software in the Corporate Reporting exam

Walkthrough of the Advance Information

1. INTRODUCTION

This walkthrough document explains and illustrates how Advance Information features in the Corporate Reporting exam.

Before you read this document, you should first work through the Corporate Reporting Data Analytics Software Guidance Notes and attempt the first two Corporate Reporting Data Analytics Software practice questions.

2. ADVANCE INFORMATION IN THE CORPORATE REPORTING EXAM

Advance Information for each exam session will be released four weeks prior to the Corporate Reporting exam. The Advance Information comprises two parts:

- 11 months' financial data for the same company you will see in the exam; and
- an Advance Information document with background information and the scenario.

You should spend time familiarising yourself with both parts of the Advance Information prior to the exam. Exam questions contain requirement(s) which may be flagged by the 11-month dataset and / or the Advance Information document.

2.1 Data Analytics Software – 11 months' data

You should perform analytical procedures on the 11 months' data ie, by identifying key account codes that have changed significantly in comparison with the previous year.

The guidance notes explain how to do this using the Explore module and other analytics tools. You could choose to download the Fieldwork Trial Balance to review the changes in account codes from the previous year. (Note that the download function should only be used when analysing the Advance Information; you will not be able to download anything relating to the real exam dataset).



When reviewing the 11-month dataset, these are the types of questions you should ask yourself:

- has revenue increased?
- has share capital increased?
- has a loan been repaid?
- have intangible assets decreased or PPE increased?
- has the profit increased or decreased?

You should also examine changes in balances from the previous year in 'Account View' and investigate by drilling down to transactions. You should identify unusual or large transactions using the analytics tools in the Data Analytics Software.

Other ways you should review the 11-month data include:

- in the Explore Module, using the Heat Map to identify high risk transactions;
- in the Explore Module, using the Bump Chart and Tree Map to identify high risk users (eg, if there has been a large volume of transactions, leavers and starters);
- in the Explore Module, using the Stacked Bar Chart to review the monthly pattern of transaction values and volumes for key accounts;
- in the Detect Module, identifying large transactions (eg, in key accounts) which may represent high audit risk;
- in the Cascade Revenue module, examining the exceptions to the normal revenue cycle which have been highlighted; and
- in the Metrics Module examining data for unusual ratios.

In addition to the quantitative data, there might be narrative information you can gather from the Data Analytics Software for the 11-month period eg, by using the notes icon  for an internal note to another member of the audit team. Alternatively, it might include the discussion icon  containing notes to or from client staff.

2.2 Advance Information document

The Advance Information document will typically be between 1,500 and 2,000 words in length and will contain relevant information to help you understand the scenario and become familiar with the data in the Data Analytics Software.

- **The Scenario**

This will set the scene and explain your role, who you report to and the current stage of the audit, eg, the planning stage or interim audit.

- **Background information on the company**

The Advance Information document will explain the business model, including what the company produces and sells. There could be information about its markets or the industry in general, if this is relevant to the exam question. Key accounting policies may also be highlighted.

- **Organisation chart**

An organisation chart for the company may be provided to show the roles performed by the users in the accounting software, their areas of responsibility within the company, who has joined the company, who has left and each person's level of experience.

- **Extracts from meetings with the client or from the board minutes**

This information could flag up transactions of significant audit interest, which indicate an increase in audit risk. Unlike in the Audit and Assurance exam, where the candidate may be directed towards which transaction to examine, it is expected that in the Corporate Reporting

exam you will use the analytic tools in the Data Analytics Software to identify transactions of audit interest which give rise to audit risk.

- **A schedule of audit risks or issues**

There may be audit issues identified by a junior audit assistant at an interim audit, or audit risks identified during audit planning. This could include a client's explanation and the audit assistant's interpretation. Having this information in advance enables you to interrogate the data for similar transactions and to think about the possible risks for the financial reporting of those transactions.

- **An analysis of an account**

The Advance Information document could include an analysis of an account code. You could use this information to help identify the key audit risks for the company.

- **Extracts from the draft annual report**

This could be financial or non-financial information to indicate, for example, a governance or sustainability issue.

- **Key transactions**

The Advance Information document may contain key transactions and balances. Background research should be carried out on the financial reporting treatment of these transactions and balances and any audit risks typically arising from them.

Importantly, the information contained in the Advance Information document is intended to direct you to the relevant areas in the Data Analytics Software to enable interrogation and understanding of the data and technical areas before the exam.

2.3 The exam: Question 1 and the 12 months' data

In the exam, you will have access to the data in the Data Analytics Software for the same company, for the full 12 months. There will be no changes to the 11 months' data which you will have reviewed in advance of the exam.

The exam question requirements could be linked to the Advance Information but may also relate to new information provided in the exam. The following are some potential exam approaches:

- More information could be provided about a transaction identified in the Advance Information document. The question could then, for example, ask for audit risks, audit procedures and/or the financial reporting treatment.
- A new or similar transaction could be introduced. This could either be identified in the exam question or you could be expected to find the transaction in Month 12 of the Data Analytics

Software. The exam question could ask for audit implications and /or financial reporting implications.

- The exam could introduce a change in accounting policy, estimate or accounting treatment or a change in the business model described in the Advance Information document; eg, the company might have entered into a new sales contract under different terms requiring different recognition criteria.
- You could be asked to carry out analytical procedures on an identified area of the financial statements to obtain explanations about transactions from the data in the Data Analytics Software. This could be from transactions in both the first 11 months and the previously unseen Month 12.
- There will usually be an unseen financial reporting issue or audit issue not highlighted specifically either by the Advance Information document or by a transaction or balance in the 11-month Data Analytics Software.
- There could be transactions not included in the Data Analytics Software 12-month data. These could include an event after the reporting period (IAS 10), which may be adjusting or non-adjusting, relating to an impairment or a future loan transaction. In an audit context, there could be information related to subsequent events.

The above is not an exhaustive list but is intended to give guidance on the types of transactions, balances and issues that may occur in the Corporate Reporting exam or in the Advance Information.

3. ELEPHANT LTD: WALKTHROUGH OF THE ADVANCE INFORMATION

The next section of this document will walk you through the structure of the Advance Information document for Elephant Ltd. Elephant Ltd is the practice dataset that you will have used when working through the guidance notes and practice questions.

The 11-month data for Elephant can be found [here](#).

The walkthrough will show an indicative structure of the Advance Information and how it links to potential exam requirements.

A version of this Advance Information will be used for the two exam standard practice questions and Corporate Reporting mock exam questions.

Assume the current date is 15 December 2018

Examiner comment

The Data Analytics Software uses the data for Elephant Ltd for the year ended 31 December 2018 – it has therefore been necessary to use an assumed date in the learning materials. In the mock/practice exam question, you will be told to assume a date after the year end.

In the real Corporate Reporting exam, a different company will be used, and the data will be available for the relevant accounting year-end.

Advance Information

Elephant Ltd

This Advance Information relates only to Question 1 of the Corporate Reporting exam.

The Advance Information comprises:

1. This document which includes the scenario, background information (**Exhibit A**) and a schedule of audit issues (**Exhibit B**); and
2. The nominal ledger data for Elephant Ltd (Elephant) for the 11 months ended 30 November 2018, contained within the Data Analytics Software.

Exam - 12 months

During the Corporate Reporting exam, you will be provided with the nominal ledger data for Elephant for the full 12 months ended 31 December 2018 contained within the Data Analytics Software. You will need to address the new data for the month of December 2018 and to consider the data, patterns and trends for the year ended 31 December 2018 as a whole.

The data for the 11 months to 30 November 2018 remains valid for the exam and will be unchanged. However, in the exam, you will not be able to access the Data Analytics Software data for the 11 months to 30 November 2018 or any notes you have made in the Data Analytics Software for the 11 months to 30 November 2018.

Examiner comment

This introduction will be similar to the introduction for the exams in July 2021 and November 2021.

Scenario

You are an audit senior working for Lister LLP, a firm of ICAEW Chartered Accountants. You have just been assigned to the audit of Elephant Ltd for the year ending 31 December 2018.

Elephant prepares its financial statements in accordance with IFRS. In September 2018, an audit plan was prepared by an audit manager who has now left the firm. The manager was assisted by Helen Holden, an audit assistant. You have just been assigned as the audit senior on the audit of Elephant and receive the following email from the newly appointed audit engagement manager, Jake Moore.

Examiner comment

As with all Corporate Reporting exam questions, your role in the audit team is relevant to the scenario. There have been changes on the audit team and you should be alert to the fact that the work of an audit assistant may have been poorly supervised. You need to recognise who they are reporting to and that it is not the examiner talking to them, but an actor in the question.

From: Jake Moore
Date: December 2018
To: Audit Senior

The client requires an early sign-off of the audit report as Elephant will be seeking finance from the bank. We have carried out an audit planning visit. During the visit, the client provided Lister with data for the 11 months ended 30 November 2018 from Elephant's nominal ledger. This has been imported into the Data Analytics Software used by Lister.

The final audit visit is now scheduled for January 2019 and I would like you to act as audit senior.

Examiner comment

Note the pressure from the bank; potential directions for the exam question could be an audit going concern review or financial reporting issues around a loan.

As part of the audit plan, Helen prepared some background information and system notes for invoice financing (**Exhibit A**) and a matter which she has discussed with the client (**Exhibit B**). I have not had chance to review this matter just yet.

Examiner comment

Helen is an audit assistant, and you need to apply professional scepticism to the information she has produced as there has been little oversight by the audit manager.

Before the final audit commences in January 2019, I would like you to familiarise yourself with Elephant by reviewing:

- (1) The background information (Exhibit A) and matters discussed with the client prepared by Helen (Exhibit B); and
- (2) The nominal ledger data for Elephant for the 11 months ended 30 November 2018, contained within the Data Analytics Software.

Examiner comment

You should refer to the suggestions (section 2.1 above) for things to look for in the 11-month data, eg, performing analytical procedures on the financial statements in the 11-month data, identifying key account codes which have changed significantly in comparison with the previous year, identifying key transactions using the methods described above.

Exhibit A: Background information – prepared by Helen Holden, September 2018

I had a meeting with Frank Wright to discuss the company and significant events during the year. I have summarised below the key points from my meeting.

Elephant provides marketing services, mainly to digital businesses based in the UK (domestic) and the rest of Europe (overseas). Customers sign a contract with Elephant for the provision of a specific project. Each project is short term, up to two months.

Elephant contracts with customers to deliver short-term marketing projects. Customers are invoiced and revenue is recognised when the customer signs to confirm their acceptance of a completed project. International customers are sometimes invoiced in their local currency.

A typical marketing contract will comprise a contract price for design artwork and concept and brand development. In addition, the contract will specify the selling price for promotional products such as banners, posters and marketing gifts (eg, pens, key rings etc). The price is calculated based on the quantity ordered by the customer.

Examiner comment

This information flags revenue recognition as an issue for this company; IFRS 15 is a pervasive standard for nearly all audits. In the exam there could therefore be issues with revenue recognition or a new contract / sales agreement; note also the reference to international sales and therefore potentially IAS 21 issues.

It is common in the advertising industry to buy services from customers. For example, in 2018, Elephant had a contract to provide art and design work for a website developer and, in turn, the website developer provided website services to Elephant.

Examiner comment

Such a transaction is clearly of significant audit interest; it has implications for revenue recognition and for the potential capitalisation of intangible assets.

How should you prepare?

Using the Explore Module (Stacked Bar Chart or Heat Map), Cascade Revenue Module or Detect Module, you should identify in advance that there has been an unusual transaction posted to Account code 13020 Office Equipment (see Transaction SRC006972) and consider the potential implications of this transaction for audit risk and financial reporting.

	£
Dr Account code 13020 – Office Equipment	95,000
Cr Account code 61060 Photography	20,000
Cr Receivables – Dream Digital Ltd	75,000

Costs are incurred by Elephant for each contract, including payroll and cost of sales for promotional products. Also, a large element of cost of sales is in respect of travel, accommodation, motor vehicle costs and consumables. Travel and accommodation mainly relate to expense claims from Elephant staff arising from visiting clients.

Examiner comment

This section identifies the main cost drivers for this business. Payroll is clearly going to be an important cost for an advertising agency. The internal controls over expenses are also important.

The Elephant board is keen to expand rapidly and is under pressure to present a good result to the bank for the year ending 31 December 2018. The company seems to be achieving this and the draft statement of profit or loss shows that both profit and revenue have increased compared with the year ended 31 December 2017.

Examiner comment

There is a clear incentive for creative accounting - you should interrogate the 11-month data to find evidence.

How should you prepare?

Use Explore module, Financial Statement View – or download Fieldwork TB for an overview and to identify changes.

Use Explore module, Account View to drill down into the accounts and find large – unusual transactions or Bump Chart to identify unusual posters – time of day.

Elephant uses invoice financing for short-term finance, but this is expensive. The company intends to obtain a bank loan in 2019 to finance expansion and to reduce the need to use invoice financing in future. The bank will rely, in part, on the financial statements for the year ending 31 December 2018 in making its loan decision.

Examiner comment

This is a complex transaction and giving this information in advance affords the opportunity to understand the double entry in the Data Analytics Software.

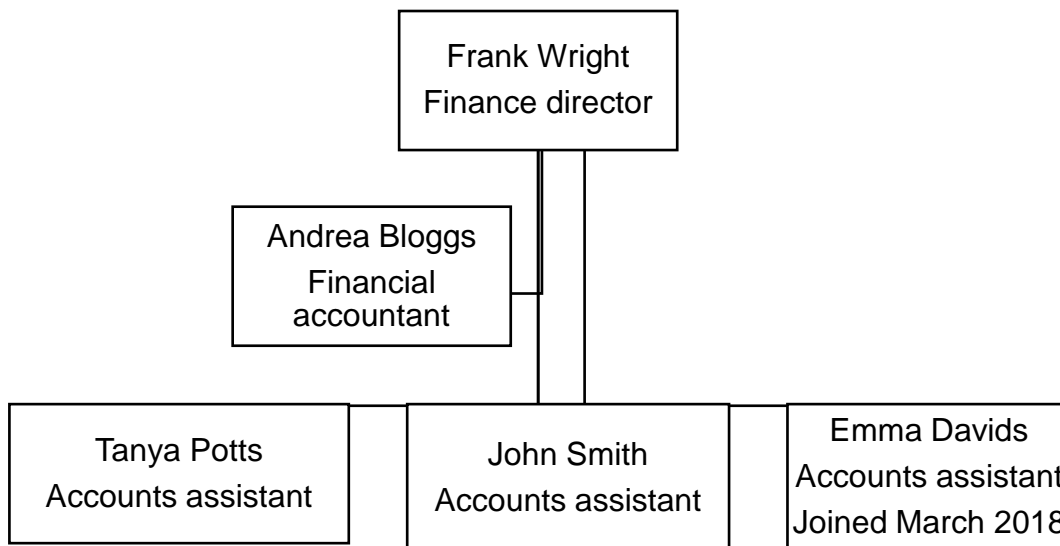
How should you prepare?

Use Explore Account View to examine the transactions in Account code 20021 Invoice Finance account to ensure that they understand the double entry – this issue is flagged again in the exhibit below.

You are expected to identify the relevant accounts in the Data Analytics Software and find out how the client records the cash received from the finance company – ie, understand the double entry - see below.

Set out below are the members of the accounts department at Elephant (users) and their roles.

Organisation roles for key members of accounts staff



Steve Thompson, an accounts assistant left in January 2018 and was replaced by Emma Davids.

Examiner comment

Why is the information included?

The organisation chart is useful to give an understanding of the experience of the client's accounting staff (called 'users' in the Data Analytics Software).

In a small company such as Elephant, it is not unusual that individuals will be posting entries on all aspects of the nominal ledger.

In a larger company, individuals may have specific roles and responsibilities.

The chart is also helpful to highlight starters and leavers, who may increase audit risk.

Exam focus

New starter unfamiliar with the processes, records transactions incorrectly in the final month and this increases the audit risk.

How should you prepare?

Using the Data Analytics Software Detect Module, you should identify unusual transactions posted by a user outside of their normal role.

You can confirm starters and leavers by using the Detect module in the Data Analytics Software and identify unusual or large transactions posted by them. This can also be done in the Bump Chart.

Frank Wright – Accounting department manager and finance director,

Frank is an ICAEW Chartered Accountant and has worked at Elephant since 2016. As Elephant is a small company, he is closely involved with recording all types of transactions on a day-to-day basis. Frank prepares budgets for Elephant and negotiates loans and contracts on behalf of the Elephant board.

Frank is the only member of the accounting department who is a qualified ICAEW Chartered Accountant. If a member of the accounting department is unsure about how to record a transaction, it is normally recorded in Account code 00990 Suspense account. Frank later corrects the entries by raising a journal and clears the suspense account.

Examiner comment

Why is the information included?

This section tells you that Frank has considerable control over recording of transactions – and that segregation of duties and management override are audit risks.

It brings your attention to the suspense account which may be missed because it is a zero balance at the year end.

How should you prepare?

Account code 00990 – Suspense account should be examined.

Although the Suspense account is zero at the end of the period, there are some interesting transactions which appear to debit Account code 13010 Office Equipment - see transaction 62458 and 61350 – which would lead you to review asset additions and discover the transaction SRC006972 noted above.

Exam focus

The client is under pressure to report increased profits. Capitalising expenses incorrectly is a very easy method of creative accounting, although possibly fraudulent, to achieve this. There are different ways this could be developed in the exam question. For example, these could be, inter alia:

- *A transaction introduced into month 12 for further capitalised costs on a different asset account - you could be asked to explain the incorrect treatment and recommend appropriate adjustments.*
- *A transaction to test the correct capitalisation of development costs.*
- *Impairment indicators given in the exam question scenario.*
- *A barter transaction – cross selling of services and revenue recognition issue.*

Andrea Bloggs – Financial accountant

Andrea has worked for Elephant for two years. She previously worked in the purchase ledger department for a large manufacturing company. She is very competent at posting invoices for purchases and cash entries. She has less experience in posting entries for sales invoices and credit notes but does sometimes assist in recording these types of transactions. She reconciles the bank statement monthly.

Examiner comment

This highlights a potential audit risk around Andrea's recording of sales invoices.

Tanya Potts – Accounts assistant.

Tanya prepares the payroll together with John Smith. She also helps with sales ledger and purchase ledger transactions.

John Smith – Accounts assistant

John prepares the payroll together with Tanya Potts. He also helps with sales ledger and purchase ledger transactions.

System note for invoice financing

The carrying amount of the trade receivables includes receivables which are subject to an invoice financing arrangement. Elephant uses an invoice finance company, Close Real Debt Ltd (CRD). Under this arrangement, Elephant Ltd transfers the relevant receivables to the invoice finance company in exchange for cash. Elephant Ltd transfers late payment risk and credit risk to the invoice finance company. Trade receivables are shown net of invoice financing loans in the statement of financial position.

Under the terms of the agreement with CRD, Elephant identifies customer invoices for finance from CRD. Although Elephant performs credit checks on all its customers, CRD also carries out credit checks and confirms to Elephant which invoices it is accepting for finance.

When the invoice is accepted by CRD, Elephant transfers the invoice to the invoice finance account (Account code 20021). CRD pays Elephant the invoice amount less a fee based on the amount of the sales invoices transferred. Elephant can draw cash down from CRD up to the amount of invoices accepted by CRD. CRD charges interest on these advances.

CRD is responsible for collecting the amount owing from the receivable. This is a non-recourse agreement and CRD has no right to return the receivable to Elephant. Therefore, the risk of non-payment by the receivable is with CRD.

Elephant Ltd therefore derecognises the transferred receivable assets in their entirety in its statement of financial position.

Examiner comment

Why is the information included?

This is complex arrangement, and the Advance Information gives you the opportunity in the 11-month data to familiarise yourself with the double entry and ensure that the accounting entries support the system note prepared by the audit junior.

How should you prepare?

You should think about the financial reporting issues surrounding invoice financing. Which accounting standards are relevant? How should the finance be presented on the statement of financial position?

You should ensure that you understand the double entry and follow through the junior's system note by summarising the entries in the Data Analytics Software by writing down the journal entries:

Dr Account code 20021 - Invoice finance account

Cr Account code 21010 - Receivables

Being journal to derecognise the trade receivable.

On receipt of cash from CRD, the following journal is processed

Dr Account code 20010 - Bank Account

Cr Account code 20021 - Invoice finance account

Being cash received from the finance company.

Dr Account code 76010 - Bank charges and interest

Cr Account code 20021 - Invoice finance account

Being finance and factoring charges.

Exam focus

There are different ways these issues could be developed in the exam question. For example:

- *An error in recording the invoice finance in month 12*
- *A change in the agreement with CRD from non-recourse to with recourse - leading to the need for an increase in the trade receivables allowance - IFRS 9 implications.*
- *Frank could have arranged a loan from CRD, and this has been incorrectly recognised and /or not authorised by the board.*
- *The payments could be fraudulently received – Frank may have a relative working at CRD, and they are in collusion? Related party issues.*

Exhibit B: Matter discussed with the client – prepared by Helen Holden, 16 December 2018

Account code 22200 Accrued income £170,294

This amount is a brought forward balance on Account code 22200 and it is still recognised at 30 November 2018. A file note on last year's audit file states that there was a problem with raising invoices for a customer. This is because Elephant carried out work under a special contract with a European customer. At 31 December 2017, Tanya was unsure about how much to invoice the customer and how to record the invoices.

Andrea informed me that invoices totaling £170,294 were raised in September 2018 for this customer which related to sales and services provided in the year ended December 2017. The

invoices which are classified as Account code 54800 Other income, will be recorded in the nominal ledger with an effective date in December 2018.

During the final audit, I recommend that we confirm that there is a zero balance on the Account code 22200 at 31 December 2018. Otherwise, we may need to recommend an audit adjustment.

Examiner comment

Why is the information included?

This information informs you that Elephant has substantial contracts with some international companies for services potentially outside of the normal business model. Also, that the client's staff are inexperienced at this type of transaction.

The second paragraph indicates that there is an audit risk around cut-off. Work can be performed, and invoices raised 9 months later.

There is a further control or systems risk because invoices can be raised and not entered in the system until a much later date.

It also flags up that the audit junior has identified that the accrual should be released but has missed the point about there being possibly other transactions in the year for this type of issue and that testing cut-off at the year-end will be a key audit risk.

How should you prepare?

In the 11-month data, you can check that the balance is stated as the junior suggests. You should search for any similar transactions by examining large sales invoices.

Exam focus

There are several exam approaches around revenue recognition and cut-off which could be introduced in the exam question:

- *Another transaction in the Data Analytics Software indicating cut-off.*
- *A transaction omitted from the Data Analytics Software.*
- *A new contract with IFRS 15 recognition issues.*

4. SUMMARY

- Use a combination of information from both sources:
 - Information in the Advance information document and
 - Data held in the data analytics software.
- Consider both ‘big picture’ (financial statement line-item level) and ‘small picture’ (transaction level).
- Understand the double entry in the software of any transactions or balances identified to you in the Advance Information document.
- Remember this is real data and not all transactions are immediately understandable – “obtain information and explanations from management” is often a reasonable audit procedure in this case.
- Do not waste time down ‘rabbit warrens’ – keep perspective of what’s important and use the scenario and background information to guide you where to dig deeper into the data.
- Use specific references made to dates, people, customers/suppliers given in the Advance Information document.
- Identify events that make transactions riskier (e.g., system or personnel changes).
- Investigate areas that are likely to be more subjective.
- Review transactions for individuals that pose a risk due to bias, fraud etc.
- State the obvious (eg, ‘heatmap shows a number of high-risk transactions’) but follow up on the obvious.

Remember:

- The examiner will not mark the Data Analytics software – it is therefore important to describe transactions and methods in your answer to the exam question.
- You cannot copy from the Data Analytics Spreadsheet into your script.