

***Corporate Reporting  
ICAEW Partner in Learning  
Conference***



# ***Agenda***

- Progression from Certificate and Professional Levels
- Overview of CR
- Sustainability
- Data analytics software
- How candidates performed in CR in 2023
- November N23 CR exam
- Advice for candidates



*Progression*

# ***Progression to Corporate Reporting (CR)***

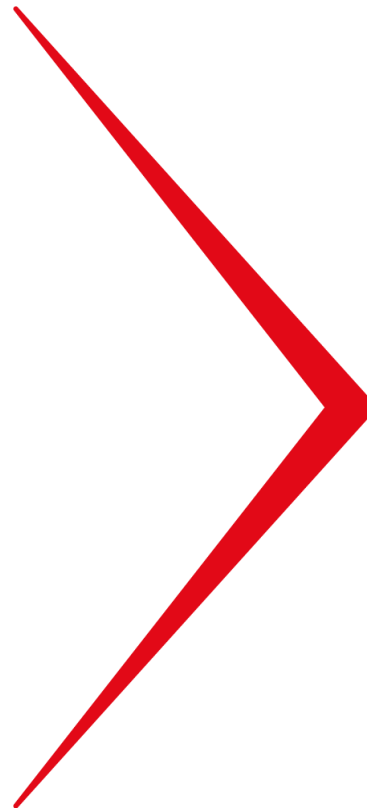
- Technical progression – new topics
- Skills progression
- Ethics
- Importance of brought forward knowledge



# ***CR – Overview***

- Exam format (3½ hours)
- 3 questions (100 marks)
- Each exam will contain questions requiring integration of knowledge and skills, including ethics
- Open book exam
- The DAS question will be question 2





# ***Overview of CR***



# ***Corporate Reporting Syllabus***

Topic	Weighting
Corporate reporting	55% - 65%
Audit and Assurance	30% - 40%
Ethics	5% - 10%

# Corporate Reporting

## Main syllabus areas

Financial reporting

Audit and assurance

Integrated learning outcomes

Ethics



## Skills

Assimilating and using information

Structuring problems and solutions

Applying judgement

Concluding, recommending and communicating



## Questions

Q1 FR

Q2 DAS mini case  
FR and A&A

Q3 FR and A&A



# ***Corporate Reporting – analysis of a paper***

## **Approximate marks**

## **Description**

30

Corporate reporting

Mini case with Advance information  
11 months data from a real company issued.  
before the examination.

40

Auditing with corporate reporting integration. This may be technical compliance or interpretive (e.g., analytical procedures)

30

Audit and corporate reporting

Ethics and financial statement analysis may feature in any of the questions

# ***Ethics (CR)***

- Ethical dilemma(s)
- Ethical issues for specific individuals and/or organisations
- Identify ethical issues/principles
- Identify ethical actions
- Balanced approach



# *Ethics*

- Apply professional scepticism (questioning mind)
- Ethics can be embedded in scenario – but requirement will refer to ethical issues
- Use ethical language and principles (not just generalised opinions)
- Refer to ethical codes where appropriate
- Weak answers:
  - identify one issue only
  - fail to identify the perspective(s)
  - take a one-sided view (unbalanced)
  - do not use ethical framework
  - do not use ethical language



# ***Skills in summary***

<b>Skill</b>	<b>Can the candidate:</b>
Assimilating and using information	Use information, provide analysis, appreciate its significance. e.g. data analysis using spreadsheets Redrafting extracts from financial statements
Structuring problems and solutions	Define the problem, develop solutions to fix it.
Applying judgement	Identify significant factors/issues, apply a sceptical and critical approach.
Drawing conclusions and making recommendations	Formulate reasoned recommendations and opinions, set out advice, options, reservations based on valid evidence.



# ***What's new for 2024?***



# ***“Deletions” to syllabus for 2024***

- **9 Financial statement analysis**

compare and appraise the significance of accruals basis and cash flow reporting.

- **10 Professional practice**

appraise and explain the role and context of auditing

- **11 Planning**

identify the components of risk and how these components may interrelate

- **13 Corporate governance**

evaluate and appraise appropriate corporate governance mechanisms

- **18 Integrated learning outcomes**

appraise corporate reporting policies, estimates and measurements for single entities and groups in the context of an audit

# ***Additions to the syllabus for 2024***

Mainly relating to sustainability – gentle launch.

## Principles

- a. appraise corporate reporting regulations, and related legal requirements, with respect to presentation, disclosure, recognition and measurement, **including the impact of climate-related risks**;
- **Assets and non-financial liabilities**
  - a. explain and evaluate how different methods of recognising and measuring assets and liabilities can affect reported financial position, and explain the role of data analytics **and climate related risks** in financial asset and liability valuation; and

# ***Additions to the syllabus for 2024***

- **Financial statement analysis**

evaluate and appraise the nature and validity of information disclosed in annual reports, including integrated reporting and other voluntary disclosures, including those relating to natural capital sustainability and **climate-related risks and opportunities**;

- **Professional practice**

explain the nature and purpose of quality assurance (both at the level of the firm and the individual audit) and assess how it can contribute to risk management **including climate change risk governance**



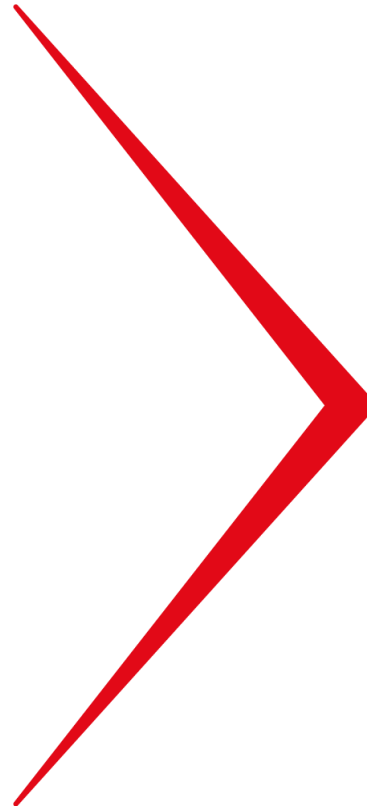
# ***Additions to the syllabus for 2024***

## Reporting and concluding

- appraise the appropriateness of the going concern basis of accounting, **evaluate management's assessment of going concern, and assess the appropriateness of going concern disclosures**
- appraise 'other information' in the annual report and report on material misstatements in this information and material inconsistencies with the financial statements **including climate-change disclosures.**

# *Other matters*

- Advance information released now 8 weeks before the exam but no change to the approach or type of content
- Candidates can use the spreadsheet in the exam software - this impacts the design of the questions and the mark allocation. Candidates should practice this in advance.



***Sustainability***

# ***Sustainability – key activities for accountants***

REPORTING (MANDATORY AND VOLUNTARY)

RISK MANAGEMENT

ASSURANCE

STRATEGY

FINANCE

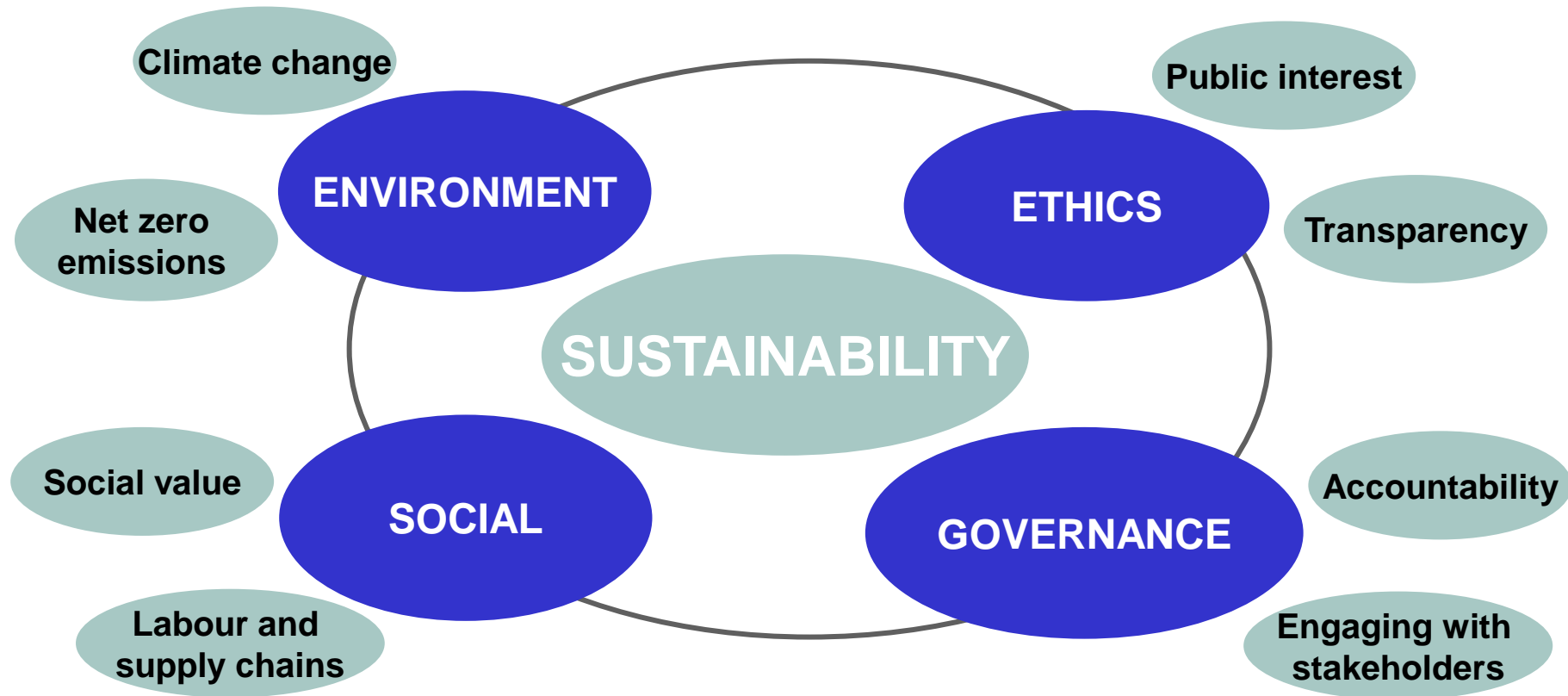
GOVERNANCE

METRICS AND TARGETS

OPERATIONS & SUPPLY CHAINS

REGULATION & GUIDANCE

# *Putting sustainability at the heart of the matter*



# ***Examining sustainability at CR - some examples***

- Financial reporting – e.g. impairment, provisions, inventory, asset values, goodwill valuations, impact on liabilities, deferred tax.
- Discount rate used for liabilities
- Narrative disclosures
- Auditing other financial information - assurance reports
- Audit risk assessment
- Corporate responsibility
- Audit report





# ***Data analytics software***



# ***Mini case with Data Analytics Software***

A better way of linking the qualification to real world.

Advance information comprises:

- 1) Data Analytics software for 11 months;
- 2) Advance information document with scenario and background information:
  - Exam – the Data Analytics software available for the full year
  - Data Analytics software will only be in one question





# *Impact on exams and LMs*

- One question only, containing 15 to 20 marks derived from interrogating the data analytics software – from November 2023 positioned as question 2
- Plenty of other marks available for the question – it's not all about the software
- Detailed guidance notes available - strongly recommended
- Learning materials use Elephant Ltd – comprise questions set by the examiners which demonstrate the types of questions and techniques required for the CR exam.
- Webinar available - Practice question 5
- Candidates should attempt all practice questions



# ***Data Analytics software features***

- Use of data from a real company
- Visualisation tools (graphs, charts, diagrams) e.g. can select two charts to compare trends not just select an individual chart.
- Ability to drill down to detailed transactions
- Identify audit risks and other issues from a large data set.
- Risk levels for each class of transaction or balance
- Ability to identify unusual and high-risk transactions for investigation



# ***Real data***

- Could contain errors
- May have missing final adjustments for financial reporting purposes
- May have incorrect adjustments for financial reporting purposes (i.e. in Month 12)
- Requires candidate to have a good understanding of double entry

# ***Modules in the Data Analytics Software***

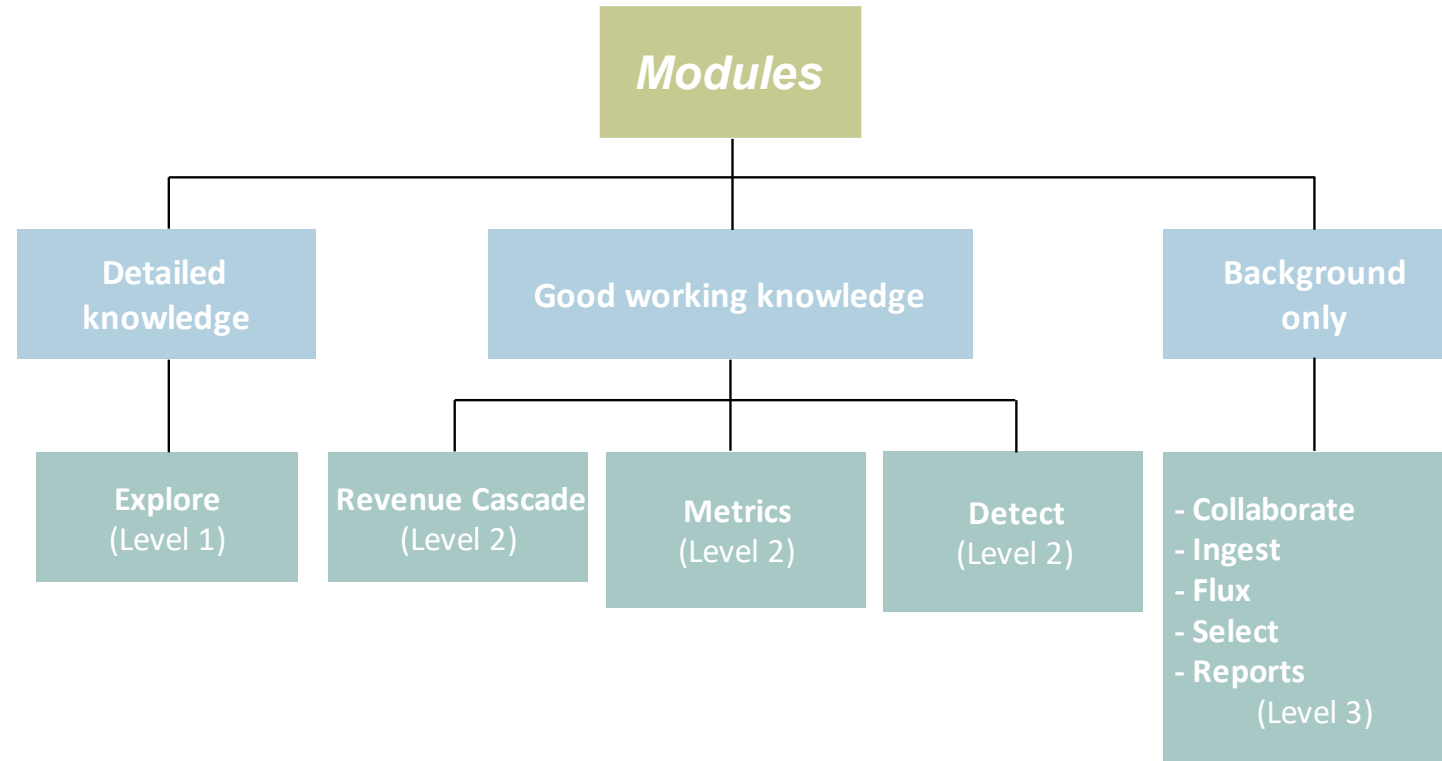
The levels of knowledge required of each module in the Corporate Reporting exam are:

*Level 1* – Detailed knowledge required – likely to appear in most CR exams

*Level 2* – Good working knowledge required

*Level 3* – General awareness only (background context)

# *Nine modules and relative importance to CR*



# *Modules in the Data Analytics Software*

## Module Selection



## Explore Level 1

- Useful module for CR
- Used to:
  - Justify risks
  - Identify transactions which require further explanation
  - Identify transactions which may indicate fraud, bias etc.
- Build audit procedures to address risks, or enquires for management

# *Modules in the Data Analytics Software*

## Module Selection



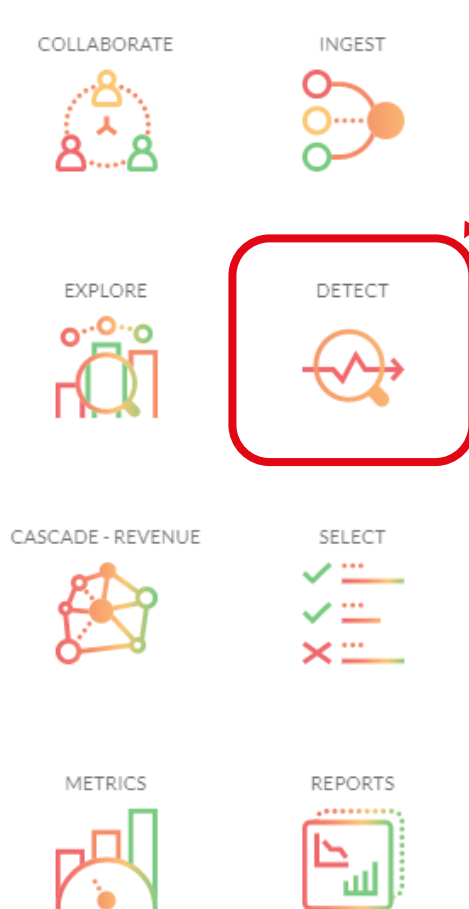
## Metrics Level 2

Used to:

- Support analytical procedures and identification of risks
- Points for inclusion in reports to management
  - E.g. Trade receivables days higher than industry benchmark / credit terms – describe implications and recommendations.

# *Modules in the Data Analytics Software*

## Module Selection



## Detect Level 2

Pre-defined audit tests within the software

Used to:

- Identify specific transactions which may indicate risk, e.g.
  - Round sum
  - Unusual posters / posted by a leaver
  - Outside working hours



# Modules in the Data Analytics Software

Module Selection

COLLABORATE



INGEST



EXPLORE



DETECT



CASCADE - REVENUE



SELECT



METRICS

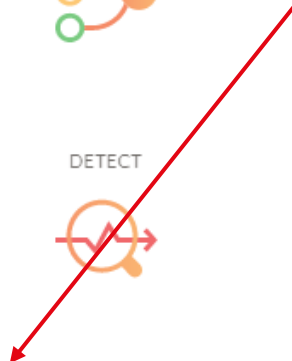


REPORTS



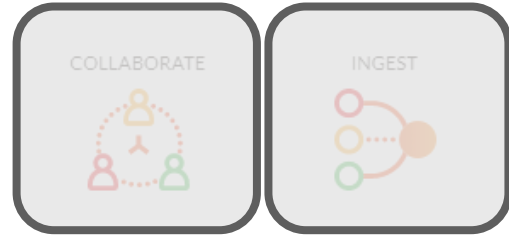
## Cascade revenue Level 2

Visualise and interrogate relationships in the revenue/receivables cycle to highlight transactions diverging from expectations



# *Modules in the Data Analytics Software*

## Module Selection



EXPLORE



DETECT



CASCADE - REVENUE



SELECT



METRICS



REPORTS



## Level 3

**Collaborate – audit management tool – leave notes for client and receive replies**

**Ingest – background knowledge**

**Select – background level knowledge**

**Reports – ability to generate reports**

# *Modules in the Data Analytics Software*



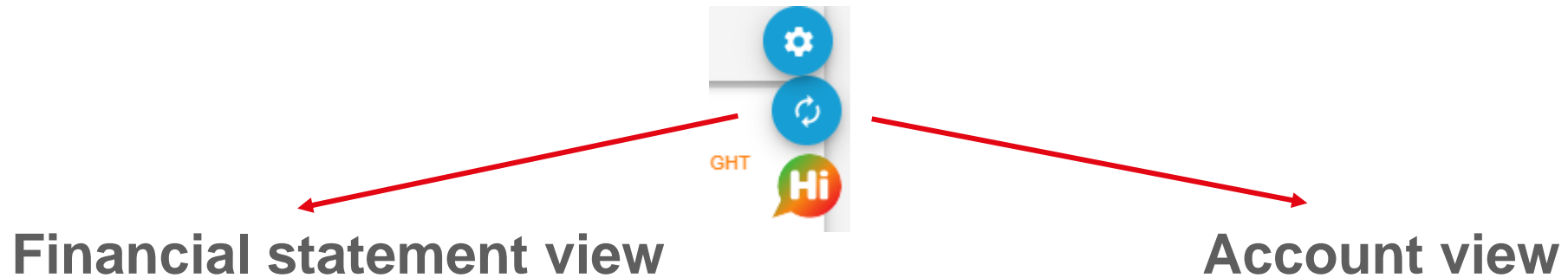
## The *Flux* Module Level 3

Allows analytical procedures to be applied to trial balance data ingested at the planning, fieldwork or completion stages of the audit.

# Explore module in detail

Two views that candidates can toggle between

Candidates will need to use **both** views



Statement of Profit or Loss	Statement of Financial Position
-----------------------------	---------------------------------

View either SoPL or SoFP

Asset	1.84M	Liability	876K	Equity	360K	Income	3.08M	Expense	2.47M
	(↑47.9%)		(↓0.9%)		(↓1903.3%)		(↑13.6%)		(↑6.3%)

See detailed sub-accounts under each main FS category



# *Explore module in detail*

## Financial statement view

Use this to:

- View headline figures that would appear in the financial statements
- Identify significant year on year changes
- Calculate ratios

This replaces the presentation of draft financials in the exam question.

Example:

- Calculate gross profit margin for current and prior year using Income and Cost of Sales



# *Explore module in detail*

## **Account view**

Use this to:

- Analyse individual accounts in more detail
- Sort data to identify risks (document type, user, day posted)
- Drill down to specific transactions

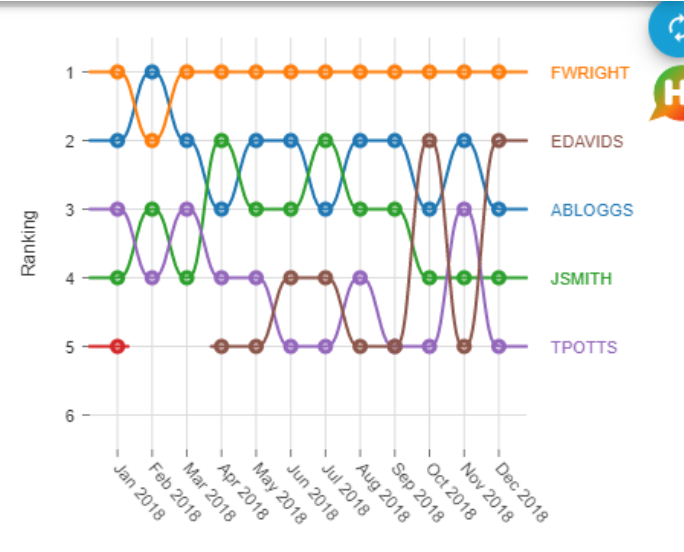
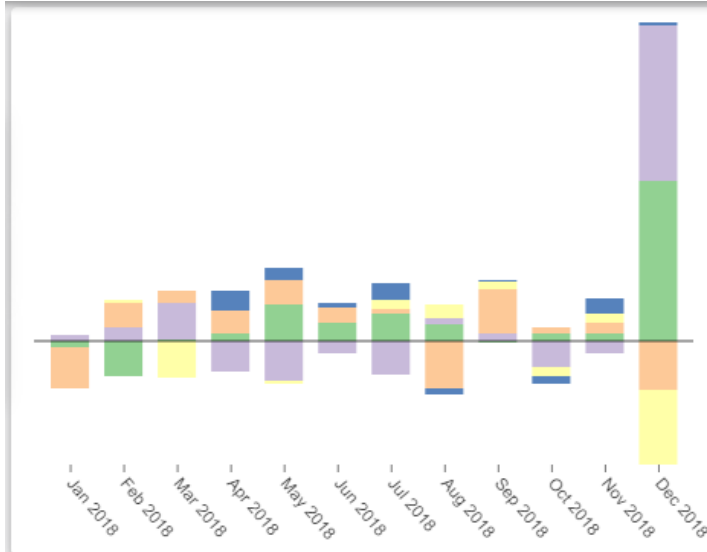
Example:

- The question scenario has indicated a specific category of tangible asset (e.g. plant and machinery) presents a risk

## Stacked bar chart

Find unusual levels of a specific type of transaction in each month / weekday / user.

**When or who or how or what?**



## Bump chart

Find users that you wouldn't expect to post to a particular account or interrogate document type

**Who?**

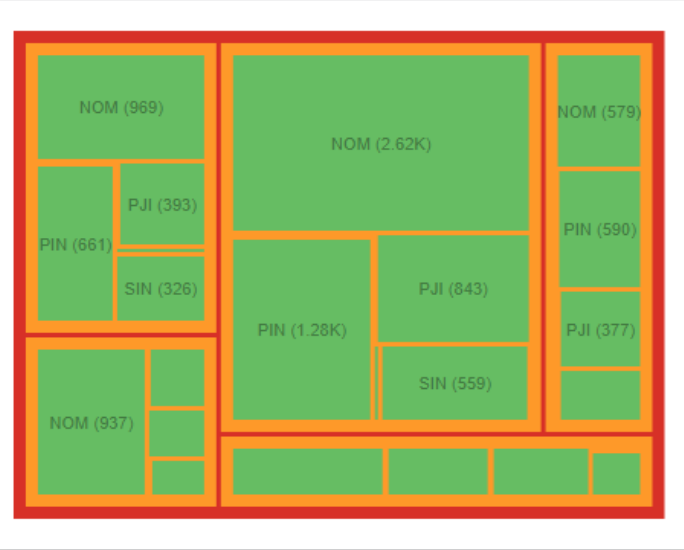
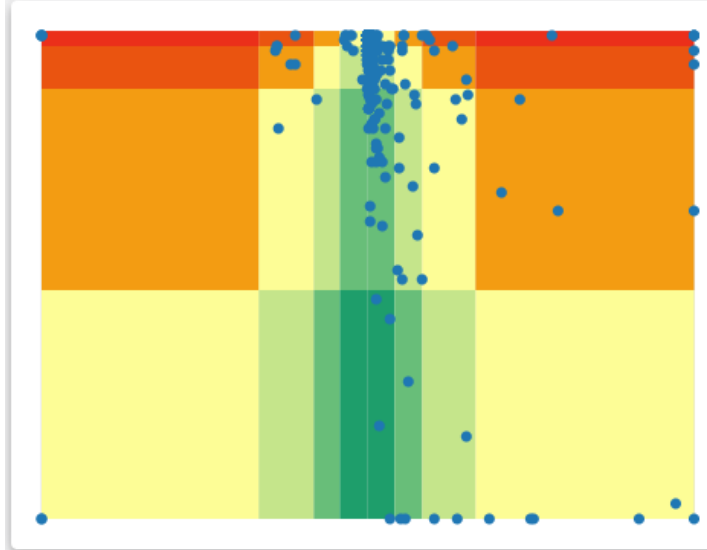
**E.g. Find manual journals**

## Heat map

Interrogate high value, infrequent transactions.

**What?**

**Use this to identify specific high-risk transactions in key areas of audit risk.**



## Tree chart

Find users that you wouldn't expect to post to a particular account or interrogate document type

**Who or how?**

# *Available in advance – 11 months data*

- Real company, real transactions
- Management accounts – not audited
- Entries reflecting incorrect FR treatment - e.g. deliberate creative accounting or ignorance of accounting rule by client.
- Bookkeeping errors made by the original client
- Creative accounting entries made by the original client
- Entries introduced by the examiner



# *12 months data*

Month 12 will be added to the 11 month data

No changes to the 11 months data

Transaction or a trend introduced for the candidate to prove own ability to interpret the data.

**Visualisations cannot be reproduced in the exam software – candidates must use communication skills to explain trends and audit skills to describe transactions and entries.**

# ***Key progression points***

- A&A – use audit software to identify transaction of audit software – CR expectation to drill down further – look for similar or related transactions or missing transactions or balances
- **In common with A&A – the candidate must be able to describe the transaction – markers do not access the DAS**

## CR

- Use of Advance information and the 11 month data set
- Incorrect transaction may be replicated in the 12 month data or a new one introduced
- Integration with financial reporting – incorrect financial reporting issue can arise from the data
- Use data to create analysis – e.g. J22 and N22 – gross profit analysis

# *Key progression points*

- At CR expected to identify missing financial reporting entries – e.g. no interest adjustment for an amortised loan
- Greater judgement in selection of module - explore or detect
- Greater judgement in selection of search mechanism – stacked bar chart or bump chart
- Double entry is key – a candidate must understand the double entry to understand whether the transaction is correct and the balance sheet item fairly stated.





# *Candidates' performance in 2023*

# Review of July and November 2023 pass rates

	Corporate Reporting
July 2023	(n = 3,171 ) 83.7%
November 2023	(n = 3,195) 79.4%

# *Average marks by Questions*

	Q1 Max 43 DAS	Q2 Max 27	Q3 Max 30	
July 2023	27.7	16.9	16.7	61.3
	64.5%	62.7%	55.5%	

	Q1 Max 30	Q2 Max 42 DAS	Q3 Max 28	
November 2023	19.5	25.5	14.3	59.3
	65.1%	60.7%	51.0%	



# ***November 2023 exam paper review***

# *Question 1 Scenario*

- Time for Food plc (TFF) is a listed company that manufactures food products bought 100% of the ordinary shares of Great Bake Ltd (GB).
- Candidate providing assistance in finalising the financial statements for the subsidiary GB Ltd.
- Set out FR treatment of issues relating to a hedge transaction and the tax balances then complete the draft extracts from financial statements.
- Final requirement to calculate the goodwill arising on the acquisition of GB - includes fair value adjustments and explain further deferred tax implications arising for the consolidated financial statements of TFF.



# ***Question 1 – candidate performance***

## Requirement 1

a)

A cash flow hedge – often described as a fair value hedge!

Deferred tax very polarised performance

- Over sceptical about the tax computation in the question!
- Adjusting for the closing DTL/DTA position instead of the movement
- Getting the adjustment for the overprovision wrong or omitting it.

b)

Use spreadsheet function but need to show workings

- Expect to see the line items change when adjusting extracts
- Basic accounting errors – Change to ‘PorL’ changes ‘SOFP retained earnings’ – change to OCI changes reserves.

# ***Question 1 – candidate performance***

Requirement 2 Goodwill

Rescued many candidates

Most managed 6 out of 8

Discursive elements marked in pools - ie not all points needed for the marks available.

# ***November 2023 – Question 2 using the Advance information***

Key points

Appreciate the timeline

Be realistic – the potential fines for late filing are not material – but there are governance and ethical considerations

Transactions to discover and consider relating to the directors and ‘ProEd’ Maes recruitment

Trends in the data to consider -the loan account

Linking transactions for the impairment allowance to the explanation

Professional scepticism to apply in the analytical procedures of the audit senior - what should they have done?

# ***November 2023 Question 2 Impact information in the exam***

Exhibit 1 – two issues

1. Information about the loans - pattern of repayments already flagged in the AI

- Repayment loan - interest not calculated; and
- Zero coupon loan

2. Intangible asset - a new account only discoverable in December

Access DAS to find the amount and details

Directed specifically to the ProEd transaction



# ***November 2023 Question 2 Impact information in the exam***

Exhibit 2 From the perspective of the non executive representing the minority shareholder – Professional scepticism needed here too

- Details of Marc's frequent trips away
- Intimidating nature
- Non –executive directorship of ProEd

Examine the requirements.



# ***Question 2 – candidate performance***

## Requirement 1 Analytical procedures for receivables and admin expenses

- Writing out preparation without using the 12 month DAS
- Weaker candidates did not do any procedures for administrative expenses
- Key risks not linked to own analytical procedures or gave general procedures for receivables because this is what they had prepared.

## Requirement 2 FR issues arising from loans and capitalised expenses as intangibles/related party transactions

- Issue 1 Loans - well done
- Issue 2 lots about related parties but the main point about capitalising expenses often missed, i.e. was this correct or not – is there sufficient information to make this judgement? Or criteria written out for capitalisation but not applied to the scenario.
- Weaker candidates did not access DAS in Month 12 to describe the transactions behind the journal hence missing the potential related party points.

# ***Question 2 – candidate performance***

Requirement 3 - Going concern requires assessment of 12 months after the date of signing - the exam date = date of the audit (November 2023) in respect of 31 December 2022 year end – most candidates failed to understand the timeframe and made historic observations – very poorly understood.

Requirement 4 – Ethics - answered very well

Weak candidates do not appreciate the auditors' position – ie to report to the board not to one member of the board – some wanted to give Marc a good telling off!

# Question 3 Scenario

Fabrik plc is listed on the London Stock Exchange - parent of a group of companies which manufacture and distribute household cleaning products - subsidiaries and associates located around the world.

Difficult to obtain information from the Fabrik CEO and the new finance director, Lesley King, has limited knowledge of matters. Three outstanding matters:

- An 18% investment in Luang, an overseas company where there is insufficient information provided by Fabrik to determine the appropriate treatment of the investment.
- Revaluation of freehold property where gains and losses had been netted off each other in the revaluation surplus.
- Financial reporting implications of a product recall.

For each of the three matters

- identify the key audit issues,
- explain the relevant financial reporting and additional information needed
- assess the impact on the audit report if that information is not received.



# ***Question 3 Candidate performance***

Different structures to answers acceptable.

## 18% investment in Luang

- Lack of information therefore expect candidates to outline and evaluate the possibilities
- Weak candidates gave immediate definitive answer - 18% it's an investment not an associate and then proceeded to describe the treatment for a monetary asset.

## Revaluation of freehold property

Lack of brought forward knowledge - netting off not permitted and a downward revaluation should be in PorL.

Weak candidates concerned themselves more with the qualifications of the valuer.

## Product recall

Answered better than the other issues good answers covering further inventory write down, internal controls weakness and the inconsistency in the strategic report.

Weaker candidates tended to confuse a provision with a contingent liability.

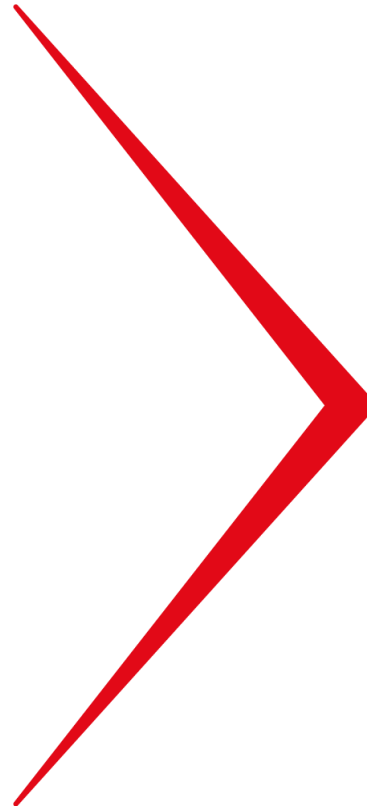
# ***Question 3 Candidate performance***

**Identify and explain any additional information and explanations that you require from management to determine the most appropriate financial reporting treatment.**

- Candidates sometimes produced a list of audit procedures to audit a balance not answering the requirement.

**Explain the implications for SW's audit report on Fabrik's consolidated financial statements for the year ended 31 August 2023. Assume that no further information is received and that no adjustments or additional disclosures are made in Fabrik's consolidated financial statements or elsewhere in the Fabrik Group annual report.'**

- Confusion around the use of Emphasis of Matter paragraph.
- Many candidates were able to correctly discuss the requirements of ISA 720 and the responsibility regarding 'Other information' and to report on any inconsistency between the other information and the audited financial statements



# ***Advice for candidates***

# ***Spreadsheets – Learn to use the exam software***

- The ACA exam platform uses SpreadJS. This is close to Excel, but it is not the same. It is important to practice questions in SpreadJS format.
- The spreadsheet functions used by candidates are **not** transferred into the word-processing area when copied. Only the raw numbers are copied over, so workings are not shown to markers.
- Visualisations **cannot** be cut and pasted into the word-processing area.
- Candidates need to ensure that all their relevant analysis and data are copied from the spreadsheet into the word processing area (e.g. an excessive number of spreadsheet columns may cause issues).



# ***Using the spreadsheet function correctly***

Some examples of the use of the spreadsheet function:

- calculate effective interest rate (eg leases, bonds)
- prepare revised financial statement extracts
- prepare consolidations of parent and subsidiary extracts
- prepare analytical procedures – ratios to interpret own figures



# Using the spreadsheet for CR - effective interest rate

Candidates could be required to find the effective interest rate in the exam for amortised cost calculations

This could be done by using the exam software - IRR function

For example

Assume loan of £1.15 million - Term 5 years - Annual repayment £300,000

**Note:** =IRR initially rounds to the nearest whole percentage point.

	£000
To	1,150.0
T1	-303.4
T2	-303.4
T3	-303.4
T4	-303.4
T5	-303.4
=IRR(B2:B7)	10%

# Using the spreadsheet for CR – Preparing financial statement extracts

## Eg J22 Question 2

### Forecast of the consolidated profit after tax in Exhibit 2

	FB parent £000	*CC W3 Add 3 months £000	£000	Intra group/ revenue profit	£000
Revenue	125,000	9,174	134,174	(27,000)	107,174
Operating profit	45,900	1304	47,204	-9000 W2	38,204
Net finance income/(expense) (2,000 + 1,673) W1	-327	-54	-381		-381
Profit before tax	45,573	1250	46,823		37,823
Current tax expense	-7,000	-327	-7,327		-7,327
Deferred tax expense	-3,000	-10	-3,010	900 W3	-2,110
Total tax expense	-10,000	-337	-10,337		-9,437
Profit after tax	35,573	913	36,486		28,386

# *Some examples of poor practice*

In this example the candidate:

- Fails to take 3 months of the subsidiary
- Cancels intra group sales correctly but then adds to the adjustment to profit
- But correctly adds down the consolidated profit or loss

Revised forecast:

			CC in £ (average rate) ✓ <sub>1</sub>	ADJ ✓ <sub>1</sub>	TOTAL
Revenue		125,000	36,696	-27,000	134,696
Operating profit		45,900	5,217	27,000	78,117
Net finance expense		(2,000)	(217)		-1,783
Profit before tax		43,900	5,000		76,334
Current tax expense	-7,000		(1,309)		-8,309
Deferred tax expense	-3,000		(39)		-3,039
Total tax expense		(10,000)	(1,348)		-11,348
Profit after tax		33,900	3,652 ✓ <sub>1</sub>		53,638
Other comprehensive income					
FX gain on translation of a foreign sub (goodwill)		757.6			



# *Some examples of poor practice*

- In this example the candidate correctly time apportions but then adds the wrong two columns across

Revised Statement of consolidated statement of profit or loss for year ended 31st December 2022

	FB	CC full year	CC pro rate * (3/12) (000) $\checkmark_{1\frac{1}{2}}$	adj	CSPL (£000) $\checkmark_2$ FB + CC Pro Rate
Revenue	125000	36,695.65	9,173.91		45869.6
Operating profit	45900	5,217.39	1,304.35		6521.7
Net finance expense	685	-217.39	-\$54.35		-271.73
Profit before tax	43900	5,000.00	1,250.00		6250
Current tax expense	-7000	-1,308.70	-327.17	MAX	-1635.8
Deferred tax expense	-3272	-39.13	-9.78		-48.91
Total tax expense	-10000	-1,347.83	-336.96		-1684.8
Profit after tax	33900	3,652.17	913.04		SEFN

## ... and finally

- this candidate puts through adjustments - (18k is incorrectly deducted from profit) but simply continues to add across the profit lines

Own figure  $29204 - 2806 = 26,398$   
not 45,150

CONSOL	£000	£000	Adj 1	Adj 2	Adj 3	Cr Tax expense	Consol 3 months	Totals
Revenue		125,000.00	(27,000.00)				9,173.91	107,173.91
Operating profit		45,900.00			(18,000.00)		1,304.35	29,204.35
Net finance expense		(2,000)		(2,752.00)			(54.35)	(2,806.35)
Profit before tax		43,900.00					1,250.00	45,150.00
Current tax expense	(7,000.00)					(550.50)		(550.50)
Deferred tax expense	(3,000.00)						-	-
Total tax expense		(10,000.00)					(336.96)	(10,336.96)
Profit after tax		33,900.00					913.04	34,813.04



# *Use preparation appropriately*



Prepare for question 2 – but do not copy from notes –  
Preparation must be applied to the specific exam  
scenario and requirements



Don't copy from LMs or answers to questions on a related topic  
without applying to the specific exam scenario

# Successful candidates

- Set out clear workings – use headings.
- Conclude with justification.
- Do not give generic answers unrelated to the scenario.
- Apply professional scepticism to assertions made by characters in the question

# *Advice*

- Answer all parts of questions (if you write nothing, you get nothing).
- Link information/data to resolve a problem – gateway points
- Answer requirements within a question – the order of the requirements are designed to help candidates.
- Check for realism in the answer.
- Use the word '**because**' to explain.

# ***Advice***

- Fill gaps in brought forward knowledge.
- Use different perspectives in ethical issues
- Follow the suggested layout of the answer given in the question.
- Manage time
- Read all requirements and all of scenario before starting to write.

