



A Practical Guide to Auditing Revenue

15 April 2020

PRESENTED BY PETER HERBERT

Today's presenters

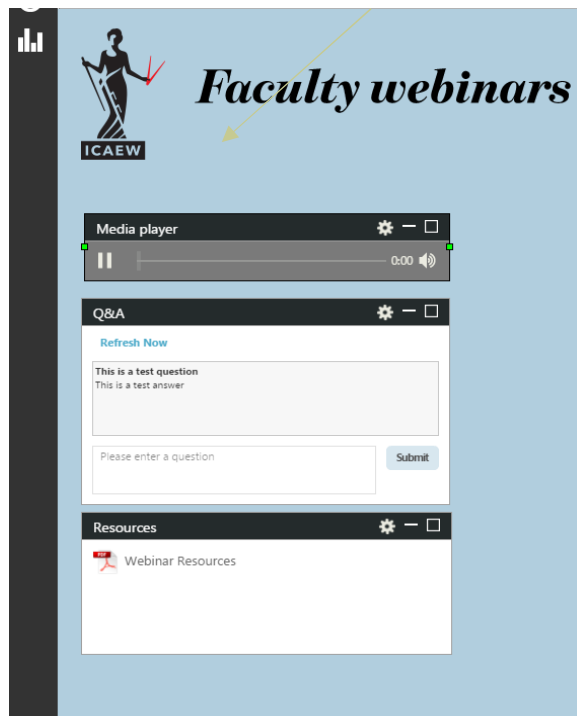


Peter Herbert
Insight Training



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Introduction



Audio problems?

- ensure your volume is turned on
- if you experience poor sound quality you may benefit from refreshing your page

Programme

Getting the accounting right

The rebuttable presumption and what it means in practice

Substantive testing – key tips and traps

Matters to consider due to the spread of COVID-19

Q & A session

The essentials



Big number!



Multiple revenue streams



Directional testing



Key area of regulator focus



Getting the accounting right

FRS 102 Section 23



Goods

- Risks & rewards
- Probable economic benefits
- Costs reliably measurable
- Para 23.12 pointers



Services

- % completion basis
- Probable economic benefits
- Costs & completion stage reliably measurable
- Para 23.21-23.27 pointers
- Uncertain outcome



Construction contracts

- % completion basis
- Probable economic benefits
- Costs & completion stage reliably measurable
- Para 23.21-23.27 pointers
- Group v single
- Uncertain outcome



The rebuttable presumption in ISA 240

ISA 240 – paragraph 26

When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

ISA 240 – Risk of fraud in revenue recognition

1. Rebuttable presumption

- Careful consideration needed
- Not just a yes / no - Rationale must be documented
- Consider and conclude on each revenue stream

2. Remember – it's fraud not error!

- What is the incentive / opportunity?
- Occurrence or completeness? (Unlikely to be both!)
- How could it be achieved?

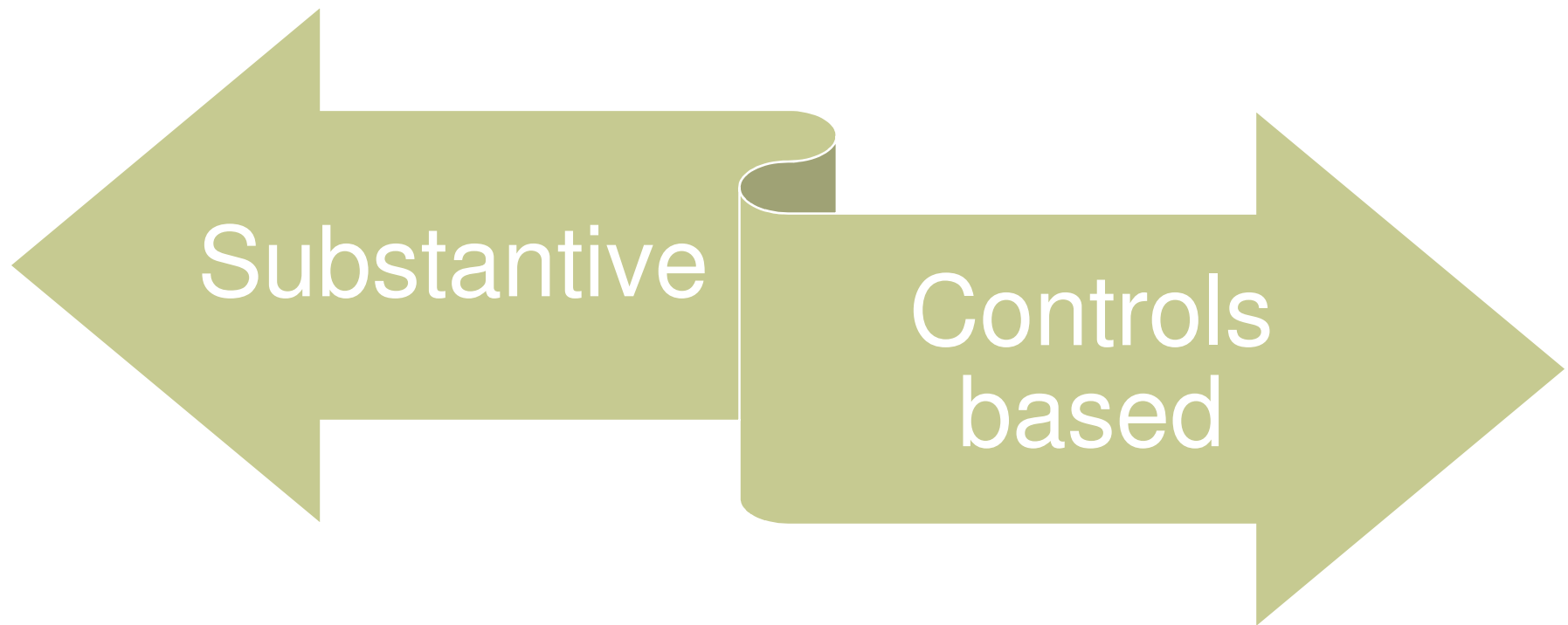
3. Targeted testing

- Significant risk level testing only on the relevant assertion
- Target testing based on how the manipulation could be achieved.

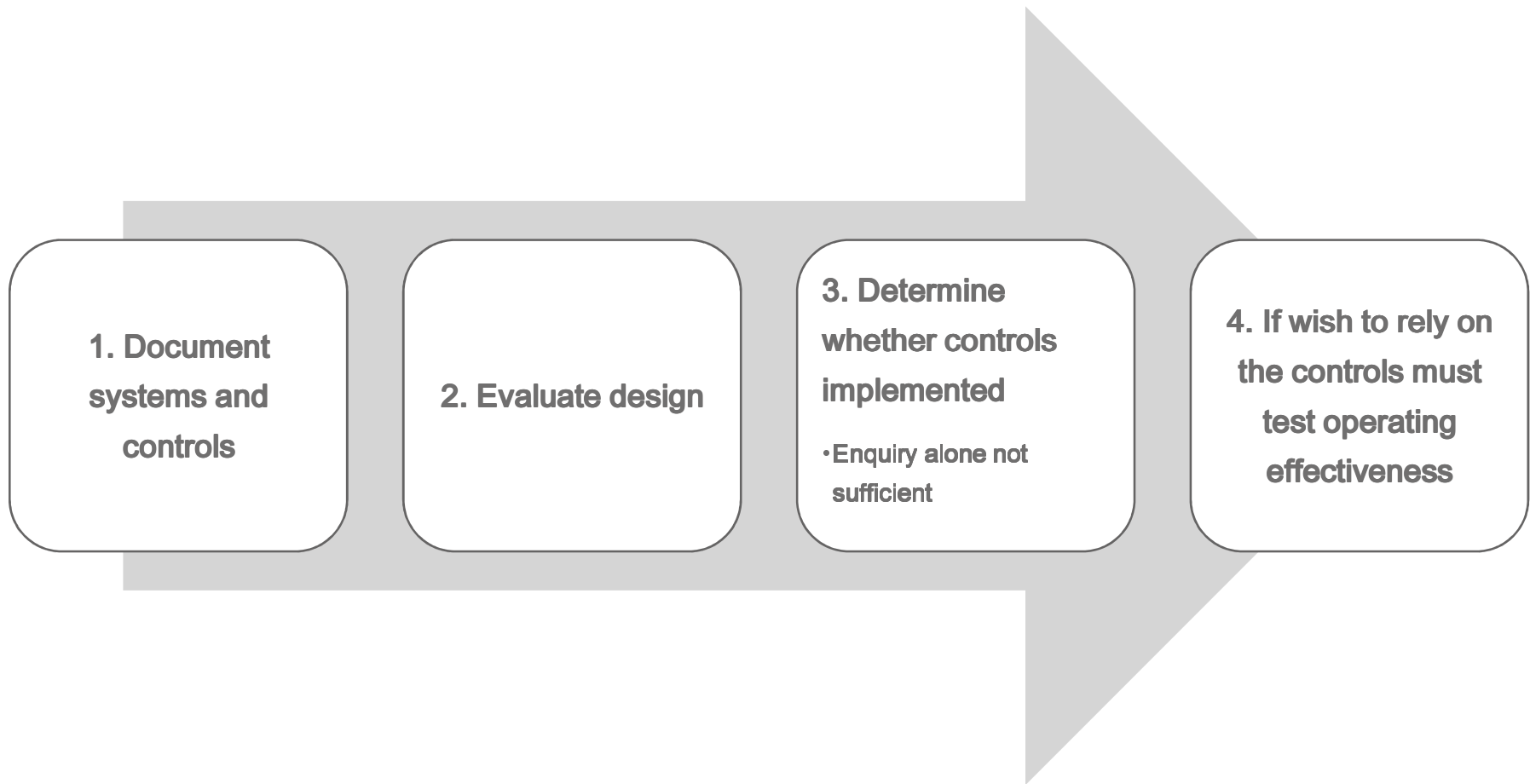


Substantive testing – key tips and traps

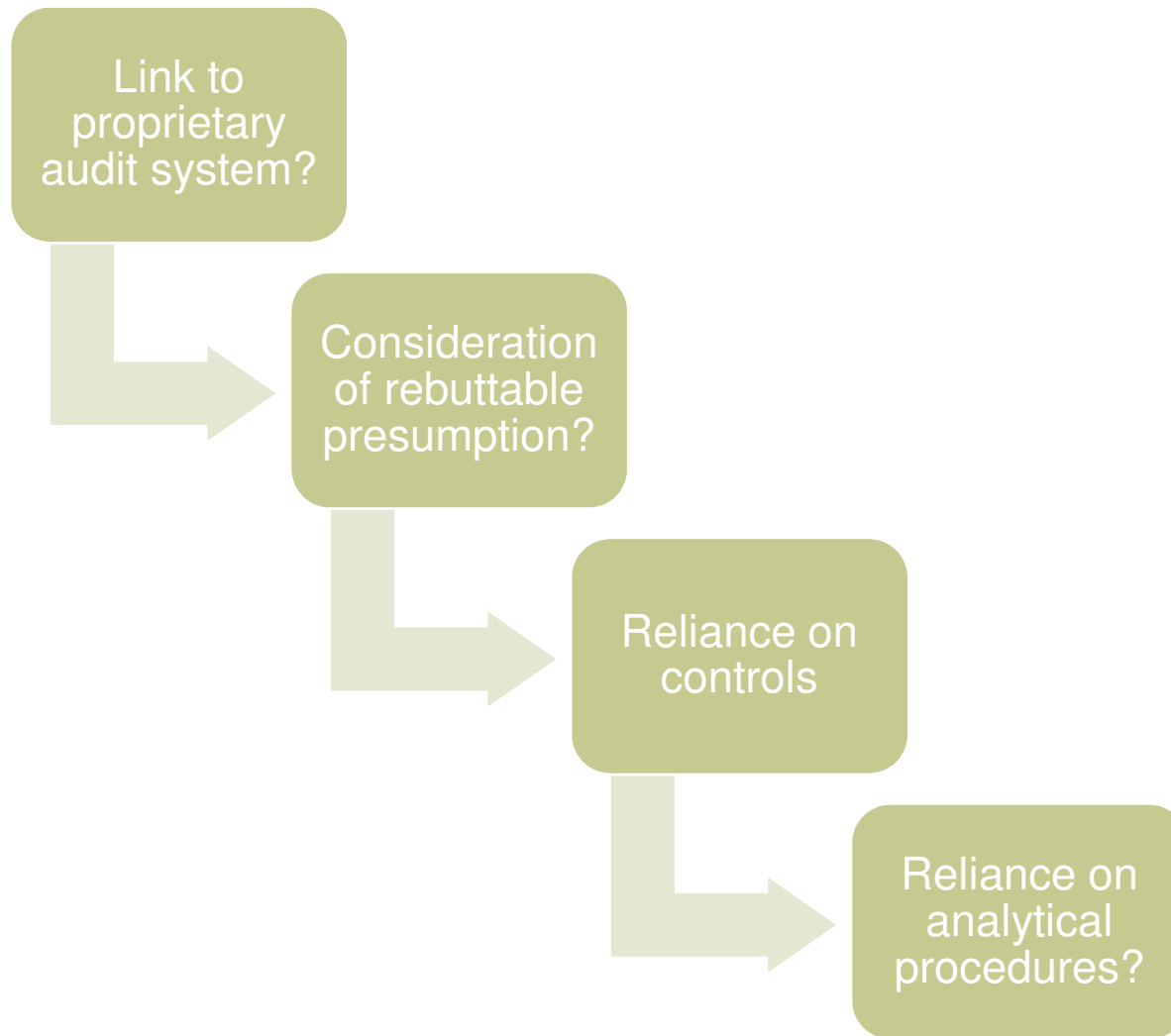
Testing approaches



Controls approach (ISA 315)



Sampling plan



Testing for completeness

Entity A is a haulage contractor. It has a large contract to move stone from a local quarry.

Entity B is an insurance broker. It specialises in arranging cover for golfers and golf clubs.

Entity C is a charity. It receives a large number of cash donations.

Laura Ashley

Audit of revenue – using CAATs

Planned tests – would have worked



Actual tests – did not work!

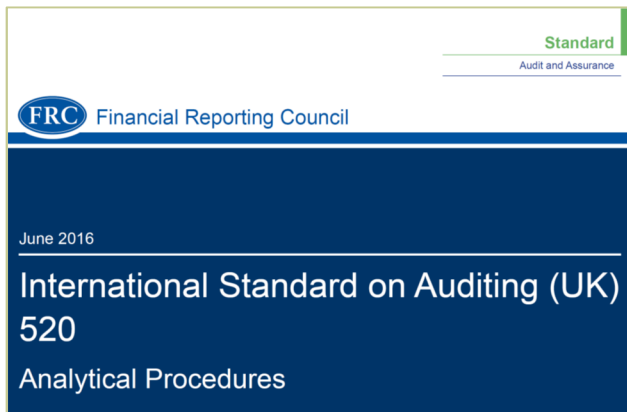


Frequently asked question

My client has a small business selling direct to the public. Some sales are made through Ebay. Other orders come in direct.

Because there is no formal system for recording sales orders how can I realistically test for understatement?

ISA 520 - Step by step



1. Consider the suitability of the procedure

2. Evaluate the reliability of data from which the auditor's expectation is developed

3. Develop an expectation of recorded amounts and evaluate whether the expectation is sufficiently precise

4. Determine the amount of any difference that is acceptable without further investigation

5. Inquire of management and obtain appropriate evidence where recorded amounts differ from expected value by a significant amount

Example

You are auditing a hotel. Your audit of income involves predicting turnover based on information you have gathered about the number of rooms, room rates and occupancy rates.

Things to watch for ...

Acceptable
level of
discrepancy?

'Noise' in the
calculation?

Source of
underlying
data?

Reliability of
underlying
data?

QAD feedback



Completeness not addressed

Some material income streams not addressed

Imprecise analytical review or variances that exceed thresholds

Construction contracts

IFRS 15

Documentation essentials

Systems notes
and
walkthroughs

Consideration of
'rebuttable
presumption'

Sampling plan

Analytical tests
(predict-
compare-judge)

Substantive
tests of detail
(care re
origination point)

Testing of
robustness of
client-generated
data

Key judgements
(e.g.
construction
contracts)



COVID-19 related matters

COVID-19 related matters

Accounting

Contract enforceability

Contract modification

Variable consideration

Construction contract
uncertainty/losses

Audit

Functioning of internal
controls

Impact on risk
assessment

'Kitchen sink'
accounting

Robustness of stock
movement records



Any questions?

Future events

For details, please visit [icaew.com/aafevents](https://www.icaew.com/aafevents)



Webinars

07 May – Practical considerations for auditing estimates

Thank you for attending

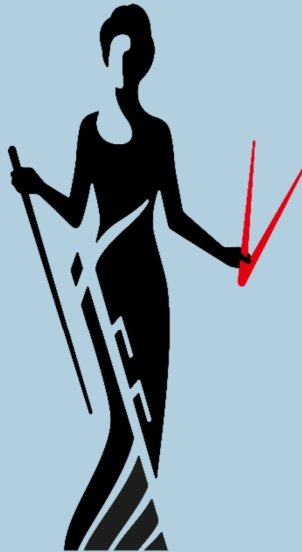
Please take the time to fill out our short survey.

Contact the Audit & Assurance Faculty

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