

Synopsis of ICAI's Guidance Note on 'Audit of Revenue'

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Background:

The Auditing Practices Committee (now known as Auditing and Assurance Standards Board) of the Council of the Institute of Chartered Accountants of India has issued the Guidance Note on Audit of Revenue way back in May 1997. Though there are changes in the way the business operates and introduction of Accounting Standards on Revenue, both under IGAAP and Ind AS, this guidance note still holds good from the audit point of view and gives guidance to the auditor to perform his duties while verification of Revenue.

Synopsis:

Revenue is the gross inflow of cash, receivables or other considerations arising during the ordinary activities of an entity from the sale of goods, from the rendering of services, and from the use by others of entity resources yielding interest, royalties, and dividends. Thus, amounts collected on behalf of third parties (eg., as an agent in agency business) are outside the purview of revenue. This Guidance Note deals with the audit of the following types of revenues as covered in [AS-9](#), Revenue Recognition, issued by ICAI viz., Sale of Goods, Rendering of Services, Use by others of entity resources yielding interest, royalties and dividends.

Audit Procedures:

As part of normal audit procedures, an auditor needs to obtain reasonable assurance about various assertions (refer SA-500, Audit Evidence, for details). An auditor has to obtain sufficient appropriate audit

evidence to corroborate the management's assertions relating to the following:

Occurrence -	that recorded revenue arose from transactions which took place during the relevant period and pertain to the entity.
Completeness -	that there is no unrecorded revenue
Measurement -	that revenue is recorded in the proper amounts and is allocated to the proper period
Presentation & Disclosure -	that revenue is disclosed, classified, and described in accordance with recognised accounting policies and practices and relevant statutory requirements, if any.

Internal Control Evaluation:

The auditor should study and evaluate the system of internal control relating to revenue, to determine the nature, timing and extent of his other audit procedures. The Guidance Note suggests that he should particularly review the following aspects of internal control relating to revenue, viz., (a) the systems and procedures relating to generation of revenue including authority to fix prices, offer discounts and other terms of sale; (b) accounting procedures relating to recognition of revenue, (c) existence of periodic reports on actual performance vis-à-vis budgets.

Verification:

The auditor may employ the following procedures for verification of revenue, viz., (a) examination of records and (b) analytical review procedures.

As part of his examination of records, the auditor needs to examine whether the basis of recognition of revenue by the entity is in accordance with the recognized accounting principles as laid down in Accounting Standard 9 - Revenue Recognition, issued by ICAI. He should further ensure that appropriate cut-off procedures have been instituted with regard to sales and sales-returns. He has to examine the selected dispatch documents with reference to related sales invoices and the sales journal.

Where the consideration is receivable in instalments, and includes an element of interest, the auditor should examine that the revenue attributable to the sale, excludes the interest element.

As regards export sales, in addition to normal procedures applied for domestic sales, he needs to ensure whether the provisions of [AS 11](#) - Accounting for effects of changes in foreign exchange rates are complied with and has to get a written representation from the management to the effect that the entity has complied with the legal and regulatory requirements relating to export.

In respect of revenue arising from services rendered (i.e., in the form of fees, commission, brokerage etc.,) the auditor should examine the related agreements and other documents. Similarly, with regard to Interest, Dividends and Royalties, the auditor should examine the related documents such as loan documents, lease agreements etc. The auditor may also seek confirmatory certificates from the parties concerned.

The auditor should satisfy himself that the revenue has been disclosed properly in the financial statements

and the relevant statutory requirements have been complied with.

In addition to audit procedures by way of examination of records as discussed above, the auditor may perform certain analytical procedures, which may often be helpful as a means of obtaining audit evidence regarding the various assertions relating to the revenue. The guidance note specifies certain analytical procedures that can be performed by the auditor during the course of his audit.

Documentation:

The auditor should maintain adequate working papers regarding audit of revenue.

Conclusion:

Revenue being an important area that has a direct bearing on the profits of an entity, the auditor needs to perform appropriate audit procedures to confirm whether the same is appropriately recognised in compliance with the accounting standards and other regulatory requirements. Considering the vast changes in the business scenario and the new avenues of revenues, the auditor has to update himself with the changes in the law, the global practices, regulatory and accounting standard requirements etc.

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