WARNING TO READERS

Registered auditors are alerted to the fact that this staff practice alert has not been updated for the IFRS Foundation® Trade Mark Guidelines.

However, any reference in it to the IFRS Foundation, the IASB, the ISSB and the work of these bodies is intended to be aligned to the IFRS Foundation Trade Mark Guidelines.

Furthermore, registered auditors are encouraged to adhere to the guidance issued by the IAASB when referencing the IFRS Accounting Standards in their reports.

INFORMATION FOR USERS

This Staff Practice Alert was issued before the adoption and issue, for use by registered auditors in South Africa, of the following quality management standards in South Africa:

- International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1);
- International Standard on Quality Management (ISQM 2, *Engagement Quality Reviews* (ISQM 2); and
- International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements* (ISA 220 (Revised)).

Effective date:

a) Audits and reviews of financial statements for periods beginning on or after 15 December 2022; and
b) Other assurance and related services engagements beginning on or after 15 December 2022.

Implications of references to ISQC 1, ISA 220 and Quality Control made in this staff practice alert should be considered in the context of ISQM 1, ISQM 2 and ISA 220 (Revised).

STAFF AUDIT PRACTICE ALERT 3

November 2019

IRBA — INDEPENDENT REGULATORY BOARD FOR AUDITORS

THE AUDIT IMPLICATIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARD 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

This publication has been prepared by the IFRS 15 Task Group of the Independent Regulatory Board for Auditors' (IRBA) Committee for Auditing Standards (CFAS). It does not constitute an authoritative pronouncement from the IRBA, nor does it amend or override the International Standards on Auditing, South African Standards on Auditing, South African Auditing Practice Statements, South African Guides (collectively called pronouncements), or the International Financial Reporting Standards (IFRS).

Also, this publication is not meant to be exhaustive. Reading this publication is not a substitute for reading the abovementioned pronouncements, as they are the authoritative texts.

The IRBA has responded to the interest in and concerns raised about the audit implications of IFRS 15, *Revenue from Contracts with Customers* (IFRS 15), which became effective for annual reporting periods beginning on or after 1 January 2018, by developing this IRBA Staff Audit Practice Alert.

This IRBA Staff Audit Practice Alert serves to provide registered auditors (auditors) with (a) the background to the risks related to, and audit implications of, IFRS 15; and (b) questions to be considered that can be used by the audit firm, audit engagement team and the engagement quality control (EQC) reviewer when considering certain audit implications of IFRS 15.

For many entities, revenue is one of the largest classes of transactions in the financial statements and is an important driver of operating results. In audits performed in accordance with the International Standards on Auditing (ISAs), revenue typically is a significant class of transaction, often involving significant risks that, in the auditor's judgement, require special audit consideration.

BACKGROUND

IRBA

1. In March 2019, the CFAS agreed to commence a project to develop audit related guidance on the audit of transactions, account balances and disclosures accounted for in terms of IFRS 15.

2. The IRBA has been monitoring developments in terms of auditing guidance issued on IFRS 15 by National Standards Setters (NSS) and audit firms. The Secretariat also engaged in discussions with the South African Institute of Chartered Accountants (SAICA), the IRBA's Inspections department and audit firms (small and medium-sized audit firms and the big four firms) to identify areas where further guidance is required.

3. The IRBA hosted a meeting in July 2019 to discuss the audit related guidance required on IFRS 15 and also to:

   - Understand from the audit firms (represented by Audit Technical and Accounting Technical specialists) their progress made in embedding the audit of IFRS 15 transactions, account balances and disclosures into their audit engagements;
   - Understand international developments regarding the issuing of audit related guidance on IFRS 15;
   - Discuss challenges faced by auditors in auditing IFRS 15 transactions, account balances and disclosures;
   - Understand what guidance has been issued by audit firms (both locally and internationally and network firms, where applicable) internally on auditing IFRS 15 transactions, account balances and disclosures;
   - Discuss some preliminary views on the type of guidance that might be necessary on the audit implications of IFRS 15.

4. The IRBA Public Inspections Report 2017/2018 highlighted that the IRBA continues to focus on revenue recognition as a significant risk area. This is due to the fact that in most businesses revenue is not only quantitatively material but is key to the business. The IRBA Inspections department has identified deficiencies in the audit work performed with respect to revenue across all assertions.

5. New accounting standards have a history of implementation challenges. This IRBA Staff Audit Practice Alert aims to be more proactive in helping auditors audit IFRS 15 transactions, account balances and disclosures.

What is new in IFRS 15?

6. In May 2014, the International Accounting Standards Board (IASB) issued IFRS 15. In brief, IFRS 15 replaced International Accounting Standard (IAS) 11, *Construction Contracts*, IAS 18, *Revenue*, International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and

Standard Interpretations Committee (SIC) 31, *Revenue – Barter Transactions Involving Advertising Services*. IFRS 15 provides a comprehensive framework for recognising revenue from contracts with customers.

7. IFRS 15 became effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. This effective date also applies to entities that apply IFRSs in South Africa.

8. IFRS 15 establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. In applying IFRS 15, an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

9. This change in the framework for recognising revenue from the traditional “risks and rewards” approach in IAS 18 impacts how an auditor audits revenue from contracts with customers.

10. According to IFRS 15.5, an entity shall apply IFRS 15 to all contracts with customers, except the following:

- Lease contracts within the scope of IFRS 16, *Leases*;
- Contracts within the scope of IFRS 17, *Insurance Contracts*. However, an entity may choose to apply IFRS 15 to insurance contracts that have as their primary purpose the provision of services for a fixed fee in accordance with paragraph 8 of IFRS 17;
- Financial instruments and other contractual rights or obligations within the scope of IFRS 9, *Financial Instruments*, IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, IAS 27, *Separate Financial Statements* and IAS 28, *Investments in Associates and Joint Ventures*; and
- Non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, IFRS 15 would not apply to a contract between two oil companies that agree to an exchange of oil to fulfil demand from their customers in different specified locations on a timely basis.

11. An entity shall apply IFRS 15 to a contract (other than a contract listed in paragraph 5 of IFRS 15) only if the counterparty to the contract is a customer. A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity’s ordinary activities in exchange for consideration. A counterparty to the contract would not be a customer if, for example, the counterparty has contracted with the entity to participate in an activity or process in which the parties to the contract share in the risks and benefits that result from the activity or process (such as developing an asset in a collaboration arrangement) rather than to obtain the output of the entity’s ordinary activities (IFRS 15.6).

12. IFRS 15.7 states that a contract with a customer may be partially within the scope of this Standard and partially within the scope of other Standards listed in paragraph 5 of IFRS 15.

- If the other Standards specify how to separate and/or initially measure one or more parts of the contract, then an entity shall first apply the separation and/or measurement requirements in those Standards. An entity shall exclude from the transaction price the amount of the part (or parts) of the contract that are initially measured in accordance with other Standards and shall apply paragraphs 73–86 of IFRS 15 to allocate the amount of the transaction price that remains (if any) to each performance obligation within the scope of IFRS 15 and to any other parts of the contract identified below.
- If the other Standards do not specify how to separate and/or initially measure one or more parts of the contract, then the entity shall apply IFRS 15 to separate and/or initially measure the part (or parts) of the contract.

13. IFRS 15 specifies the accounting for the incremental costs of obtaining a contract with a customer and for the costs incurred to fulfil a contract with a customer if those costs are not within the scope of another Standard (see paragraphs 91–104 of IFRS 15). An entity shall apply those paragraphs only to the costs incurred that relate to a contract with a customer (or part of that contract) that is within the scope of IFRS 15 (IFRS 15.8).

14. To recognise revenue under IFRS 15, an entity applies the following five steps:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to each performance obligation; and
- Recognise revenue when a performance obligation is satisfied.

15. As it is evident, the audit of revenue transactions, account balances and disclosures encompasses the consideration of a number of estimates. The recent International Auditing and Assurance Standards Board's (IAASB) pronouncement, ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* (ISA 540 (Revised)), issued on 3 October 2019, provides insights (requirements and application material) that are also relevant to the audit of revenue transactions, account balances and disclosures.

ISA 540 (Revised)

16. The IRBA Board approved ISA 540 (Revised) for adoption, issue and prescription for use by registered auditors in South Africa at its meeting on 6 November 2018.

17. The revisions to ISA 540 (Revised) include those that are responsive to the significant local and international inspection findings on the audit of accounting estimates.

18. ISA 540 (Revised) is effective for financial statement audits for periods beginning on or after 15 December 2019. Early adoption of ISA 540 (Revised) is permissible and is encouraged by the IRBA.

19. Some of the significant revisions include:

- An enhanced risk assessment that requires auditors to consider complexity, subjectivity and other inherent risk factors in addition to estimation uncertainty. This will drive auditors to think more deeply about the risks inherent to accounting estimates.
- A closer link between the enhanced risk assessment and the methods, data and assumptions used in making accounting estimates, including the use of complex models.
- A requirement for a separate assessment of inherent risk and control risk.
- Specific material to show how the standard is scalable to all types of accounting estimates.
- Emphasis on the importance of applying appropriate professional scepticism when auditing accounting estimates to foster a more independent and challenging sceptical mind-set in auditors. An example is the introduction of a 'stand-back' requirement or 'overall evaluation based on audit evidence obtained' that requires auditors to take into account all relevant audit evidence obtained, whether corroborative or contradictory.

20. The ISA 540 (Revised) Implementation project page has been added to the IAASB website as a repository for implementation support materials. It contains links to useful materials and will continue to be updated. Please visit the ISA 540 (Revised) Implementation project page regularly to check whether any new implementation support has been issued by the ISA 540 (Revised) Implementation Working Group.

QUESTIONS TO BE CONSIDERED

21. The questions to be considered can be used by the audit firm, audit engagement team and the engagement quality control (EQC) reviewer when considering the audit implications of IFRS 15. It, however, is not an exhaustive list of considerations and should not take away from the requirements of the audit engagement team to exercise their professional judgement.

22. In consideration of and response to the different content elements and questions posed in the "questions to be considered" section, the engagement team should be guided by the requirements and application material contained in the relevant ISAs.

23. The "questions to be considered" section contains questions to be responded to at the "Firm Level" and at the "Engagement Level". The "Firm Level" questions are to be considered and responded to by the audit firm's leadership that has the responsibility to consider the audit implications of new accounting standards at the audit firm level (or its equivalent). The "Engagement Level" questions are to be considered and responded to by the audit engagement team on each engagement.

24. For each consideration of the content elements and questions posed in the "questions to be considered" section, auditors are to consider developing an appropriate response.

25. Auditors are reminded of their responsibility to prepare audit documentation, on a timely basis, for an audit of financial statements[1]. The objective of the auditor is to prepare documentation that provides:

    - A sufficient and appropriate record of the basis for the auditor's report; and
    - Evidence that the audit was planned and performed in accordance with ISAs and applicable legal and regulatory requirements.

[1] ISA 230, *Audit Documentation*

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
1. Firm level risk management process considerations, including multi-location and multi-national considerations			
- Has your firm determined, through its risk assessment procedures, which of its audit clients IFRS 15 affects and the possible impact? - Has your firm made any changes to its risk management processes as a result of the audit implications of IFRS 15? - Has your firm provided relevant guidance on the risk assessment process to network firm offices in the various jurisdictions?	**ISQC 1[3]**		
2. Acceptance and continuance of client relationships and specific engagements, including human resources considerations			
- Has your firm established policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that the firm will only undertake or continue relationships and engagements where the firm is competent to perform the engagement and has the capabilities, including time and resources, to audit the implications of IFRS 15?	**ISQC 1**		

[2] For each consideration of the content elements and questions posed in the "questions to be considered" section, auditors are to consider developing an appropriate response.

[3] International Standard on Quality Control 1 (ISQC 1), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
- Has your firm established policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities and commitment to ethical principles necessary to perform engagements in accordance with professional standards and applicable legal and regulatory requirements, in particular to audit the implications of IFRS 15?			
3. Ethical considerations when an audit firm is engaged to consult with an entity on the development of their revenue models and the potential of a self-review threat (i.e. non-assurance services)			
- Has your firm put in place client and engagement acceptance procedures that address the risk of self-review in non-assurance engagements or assignments? - Has your firm implemented appropriate safeguards? - Has your firm considered if there is sufficient capacity to perform the non-assurance engagement?	**ISQC 1**	**NOTE:** Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. - Have you considered whether there are any services prohibited in terms of the Companies Act?	**ISA 210[4]** **ISA 220[5]** **ISA 250[6]** **ISA 315 (Revised)[7]** **IRBA Code[8] Section 600**

[4] ISA 210, *Agreeing the Terms of Audit Engagements*
[5] ISA 220, *Quality Control for an Audit of Financial Statements*
[6] ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*
[7] ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*
[8] *IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018)* (IRBA Code)

<table>
<tr><th colspan="4">Questions to be considered[2]</th></tr>
<tr><td><u>FIRM LEVEL</u></td><td><u>Reference to ISA/Other</u></td><td><u>ENGAGEMENT LEVEL</u></td><td><u>Reference to ISA/Other</u></td></tr>
<tr><td>- Have you considered the extent to which the independence provisions apply to your network firm offices?</td><td></td><td>- Have you considered whether there are any prohibitions provided for in the IRBA Code in particular with regard to the development of financial systems of the entity?
- Have you considered whether there are any other restrictions prescribed by other regulators?
- Have you discussed with and obtained approval for non-assurance engagements from those charged with governance (TCWG)?</td><td>Companies Act, 2008[9]</td></tr>
<tr><td colspan="4">4. <u>Considerations of other interventions that an audit firm and the engagement team can put in place to address the audit implications of IFRS 15</u></td></tr>
<tr><td>- Has your firm developed policies and procedures for hiring and/or collaborating with appropriate skilled resources?
- Has your firm developed policies and procedures for training requirements on the audit implications of IFRS 15?</td><td>ISQC 1</td><td>- Have you considered the skills set of the engagement team, including the use of accounting specialists required to perform the audit of IFRS 15 transactions, account balances and disclosures?
- Does your engagement quality control reviewer have sufficient and appropriate</td><td>ISA 220
ISA 315 (Revised)
ISA 540 (Revised)
ISA 620[10]</td></tr>
</table>

9 Companies Act, 2008 (Act No. 71 of 2008)
10 ISA 620, *Using the Work of an Auditor's Expert*

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
- Has your firm developed policies and procedures for sourcing data, such as fair values for non-cash consideration (or promise of non-cash consideration)?		experience and authority to review IFRS 15 transactions, account balances and disclosures? - Have you considered firm-specific guidance issued within your network firm offices to use in auditing IFRS 15 transactions, account balances and disclosures? - Have you considered a similar completed audit engagement that applied IFRS 15 within your firm or network firm offices to use as a reference? - Have you considered the use of an auditor's expert in auditing IFRS 15 transactions, account balances and disclosures? - Have you considered discussing entity specific revenue implications with management and your audit team?	

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
5. Considerations for the audit of transition adjustments and disclosures made by entities in terms of IFRS 15			
- Does your firm have the ability to audit the disclosure of known or reasonably estimable information (financial and non-financial) relevant to assessing the impact of IFRS 15 in the period of initial application?	**ISQC 1**	**NOTE:** During the transition to IFRS 15, some entities might utilise spreadsheets and other short-term manual processes until automated processes and controls are implemented. These short-term manual processes may present different or greater risks of material misstatement than automated processes subject to effective Information Technology General Controls. **NOTE:** Auditors are reminded to consider the alignment between the interim reported results and year-end reporting financial statements. Misalignment may occur in: • The initial financial determination of the impact of the new standard as disclosed in the interim reported results versus the financial determination as disclosed in the year-end financial statements; or • Disclosures that were either omitted or incorrectly provided in the interim reported results.	**ISA 315 (Revised)** **ISA 540 (Revised)**

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
		First time adoption for year-end reporting purposes - Have you considered the requirements as outlined in IFRS 15 Appendix C[11], and IAS 8, where applicable, relating to transition adjustments and disclosures? - Have you considered whether the entity used the full or modified retrospective transition method for applying IFRS 15? - Have you identified and assessed the risks of material misstatement associated with the entity's transition adjustments and disclosures? - Have you considered, in assessing and responding to the risks of material misstatement of the transition adjustments, the following: • Data that may not have been audited previously; • Prior-period misstatements identified in the current period's audit?	

[11] IFRS 15 Appendix C, *Effective date and transition*

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
		- Have you considered internal controls over the transition adjustments and disclosures, including, but not limited to: • The transfer of data from old to new systems? • The changes to existing systems that would have to be tested? • The inclusion of new systems? - Have you considered whether the information gathered in obtaining an understanding of the entity's transition adjustments indicates the presence of one or more fraud risk factors, and whether these should be taken into account in identifying and assessing fraud risks? Refer to section 7 below. - Is the entity providing the disclosures as required by IFRS 15 Appendix C, and IAS 8, where applicable, relating to transition adjustments and disclosures, when it has adopted IFRS 15?	

<table>
<tr><th colspan="4">Questions to be considered[2]</th></tr>
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<tr><td></td><td></td><td>- In instances where you have concluded that disclosures in the financial statements are omitted, incomplete or inaccurate, have you evaluated the effect on the financial statements and the auditor’s report? Refer to section 17 below.

<u>First time adoption for interim reporting purposes</u>

- Have you considered the implications on interim reported results in the year of adoption of IFRS 15?

- Have you considered the requirements as outlined in IAS 34[12] relating to changes in accounting policies?</td><td></td></tr>
<tr><td colspan="4">6. <u>Considerations on identifying relevant assertions and risks of material misstatement, including significant risks</u></td></tr>
<tr><td></td><td></td><td>NOTE: Auditors are reminded that for significant risks, including fraud risks, they are required to perform substantive procedures that are specifically responsive to the assessed risks.</td><td>ISA 315 (Revised)

ISA 330[13]</td></tr>
</table>

[12] IAS 34, *Interim Financial Reporting*
[13] ISA 330, *The Auditor’s Responses to Assessed Risks*

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
		- Have you considered a similar completed audit engagement that applied IFRS 15 within your firm or network firm offices to use as a reference for identifying relevant assertions and risks of material misstatement, including significant risks? - Have you obtained the required understanding of the entity and its environment, including the entity's internal control? - Have you obtained an understanding of the entity's revenue streams? - Have you identified and assessed the risks of material misstatement associated with the entity's application of IFRS 15? - Have you determined whether any of the risks identified are, in the auditor's judgement, a significant risk?	

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
		- In instances where you have determined that a significant risk exists, have you obtained an understanding of the entity's controls, including control activities, relevant to that risk? - In circumstances where you have obtained audit evidence from performing further audit procedures, or if new information is obtained, either of which is inconsistent with the audit evidence on which the auditor originally based the assessment, have you revised the assessment and modified the further planned audit procedures accordingly?	
7. Identifying and assessing fraud risks			
		NOTE: Identifying specific fraud risks arising from implementation of IFRS 15 involves having a sufficient understanding of the standard as well as the entity's processes, systems, and controls over its implementation of the standard.	**ISA 200**[14] **ISA 230**[15] **ISA 240**[16]

[14] ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*
[15] ISA 230, *Audit Documentation*
[16] ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
		NOTE: Opportunities for fraud in implementing IFRS 15 may arise in the development of significant new accounting estimates or judgement, or due to control deficiencies that might result from changes made to systems, processes, and controls to implement IFRS 15. - Have you maintained professional scepticism throughout the audit, recognising the possibility that a material misstatement due to fraud could exist, notwithstanding your past experience of the honesty and integrity of the entity's management and TCWG? - Have you considered the ways management could intentionally misstate revenue and related accounts and how they might conceal such misstatements? - Have you, as part of the identification of fraud risks, also considered the risk of management override of controls?	**ISA 315 (Revised)**

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
		- Have key engagement team members, including the engagement partner, brainstormed about how and where they believe the entity's revenue and related accounts might be susceptible to fraud? - Have you discussed how management could perpetrate and conceal fraud, including by omitting or presenting incomplete or inaccurate disclosures? - Have you presumed that there is a fraud risk involving improper revenue recognition? If yes, have you evaluated which types of revenue, revenue transactions, or assertions may give rise to such risks? - Where you have concluded that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, have you included the reasons for that conclusion in the audit documentation?	

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
8. Considerations on the audit of the five step IFRS 15 revenue model			
		Identifying the contract - Have you considered whether the criteria in IFRS 15 for a contract are met? - Have you considered the following: • Verbal contracts; • Contract modifications; • Contract combinations; • Principal versus agent; and/or • Contracts implied by business practices? **Identifying performance obligations** - Have you considered what the entity promises to transfer to the customer at contract inception, and whether each of these are distinct performance obligations?	**ISA 200** **ISA 315 (Revised)** **ISA 500[17]** **ISA 520[18]** **ISA 700 (Revised)[19]**

[17] ISA 500, *Audit Evidence*
[18] ISA 520, *Analytical Procedures*
[19] ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
		- Have you considered whether a series of distinct goods or services are substantially the same and have the same pattern of transfer to the customer? **Determining the transaction price** - Have you considered the terms of the contract and the entity's customary business practices to determine the transaction price? - Have you considered the following: • Existence of a significant financing component in the contract; • Whether the consideration promised in a contract includes a variable amount; • Whether the consideration promised in a contract includes a non-cash consideration; • Whether there is a consideration payable to a customer; and/or • Refund liabilities?	

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
		Allocating the transaction price to performance obligations - Have you considered the stand-alone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract? - Have you considered whether the stand-alone selling price is directly observable? - Have you considered whether there is an allocation of a discount (where the sum of the stand-alone selling prices of those promised goods or services in the contract exceeds the promised consideration in a contract)? **Recognise revenue** - When considering how the entity satisfies a performance obligation by transferring a promised good or service to a customer: • Have you considered whether the criteria for recognising revenue over time have been met?	

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
		• If the criteria for recognising revenue over time is not met, have you considered at what point in time revenue is recognised? - Have you considered how progress towards complete satisfaction of a performance obligation is measured? Refer to section 11 below. **Other considerations** - Have you considered whether the following has been recognised in conformity with IFRS 15: • Incremental costs of obtaining a contract; and/or • Costs to fulfil a contract? - In instances where you have concluded that revenue has been omitted, or that revenue is incomplete or inaccurate, have you evaluated the effect on the financial statements and the auditor's report? Refer to section 17 below.	

Questions to be considered[2]			
FIRST LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
9. Considerations for how and on what an auditor should apply professional scepticism in “challenging” their clients, regarding revenue recognition			
- Has your firm developed and issued guidance on how and on what an auditor should apply professional scepticism in “challenging” your clients, regarding revenue recognition?	**ISQC 1**	- Have you considered management’s application of the five steps in recognising revenue? - Have you considered the adjustments made outside of the revenue recognition model? - Have you considered and distinguished between third party/external data sources and the use of management experts and the corresponding work effort required for each? - Have you considered the possibility of management bias used in the revenue recognition? Refer to section 7 above. - Have you considered the effect of contradictory evidence?	**ISA 220** **ISA 240** **ISA 315 (Revised)** **ISA 320**[20] **ISA 330** **ISA 500** **ISA 540 (Revised)**
10. Considerations for internal control testing			
- Has your firm considered the availability of appropriate resources (including IT auditors)?	**ISQC 1**	- Have you considered using the work of internal auditors in testing internal controls?	**ISA 315 (Revised)** **ISA 330**

[20] ISA 320, *Materiality in Planning and Performing an Audit*

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
- Has your firm established policies and procedures for assigning appropriate personnel with the necessary competence and capabilities to test internal controls?		- Have you obtained an understanding of the information system relevant to financial reporting, including, but not limited to: • The related business processes; • The related accounting records and supporting information used to initiate, authorise, process, and record transactions; and • How the information system captures events and conditions, other than transactions, that are significant to the financial statements? - In instances where you plan to rely on controls over risks that has been determined to be significant risks, have you tested the design and implementation of the related systems including IT general controls, and application controls related to significant risks? - Have you considered testing the operating effectiveness of controls over:	**ISA 540 (Revised)** **ISA 610 (Revised 2013)[21]**

[21] ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

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<tr><td></td><td></td><td>• Source data; and
• Disclosures?</td><td></td></tr>
<tr><td colspan="4">11. <u>Considerations for how current audit approaches to auditing complex accounting estimates can be used to assist auditors in the approach to the audit implications of IFRS 15</u></td></tr>
<tr><td>- In developing and updating the approach to auditing complex accounting estimates, has your firm considered firm-specific guidance within your network firm offices?
- In developing and updating the approach to auditing complex accounting estimates, has your firm considered a similar completed audit engagement that applied IFRS 15 to use as a reference?
- Has your firm developed policies and procedures on when to use the work of an auditor's expert in auditing IFRS 15 transactions, account balances and disclosures?
- Has your firm considered using the work of an auditor's expert?
- Has your firm evaluated whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes?</td><td>ISQC 1</td><td>NOTE: For many entities, the application of IFRS 15 will involve areas of management judgement and estimates of revenue-related amounts. Examples of such judgements and estimates include, but are not limited to:
• Variable consideration using either the expected value method or the most likely amount method, including the constraint on recognition of variable consideration;
• Fair value of non-cash consideration;
• Standalone selling price that is not directly observable;
• Selecting an appropriate method for measuring progress toward complete satisfaction of a performance obligation;
• Principal versus agent; and
• Identification of performance obligations.</td><td>ISA 240
ISA 315 (Revised)
ISA 540 (Revised)</td></tr>
</table>

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
- Has your firm developed an approach to deal with contradictory data, including contradictory reports from experts?		- Have you considered the relevant economic and market volatility (globally, regionally and locally) in your risk assessment and the development of your estimates specific to the entity? - Have you evaluated the appropriateness of the entity's methods, the completeness and accuracy of entity data, and the reasonableness of assumptions used in developing the estimates? - Have you obtained an understanding of how management develops revenue-related estimates and used that understanding to inform your approach to testing those estimates (i.e., testing the process used by management, developing an independent expectation of the estimate, or reviewing subsequent events or transactions occurring prior to the date of the auditor's report)? - Have you evaluated accounting estimates for possible bias and estimation uncertainty?	

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
12. Considerations for group audit engagements, including groups with foreign components			
- Has your firm issued relevant guidance for group and/or component auditors? - If yes, does your firm guidance cover the following: • Changes in accounting standards? • Firm methodology/approach and risk management processes? • Consideration of hosting training/workshops?	**ISQC 1**	- Have you obtained an understanding of how group management amended its revenue recognition policies, procedures and systems? - Have you considered whether there are any legislative and/or regulatory requirements of a foreign component that may affect the revenue recognition at the holding entity level, domiciled in a different jurisdiction? - Have you considered the need to include specific instructions to component auditors with respect to relevant details about the entity's revenue recognition policies, procedures and systems, and work done centrally compared to work required to be performed at a component level? - Have you considered the accounting convention/financial reporting framework adopted in the countries of foreign	**ISA 210** **ISA 250** **ISA 315 (Revised)** **ISA 540 (Revised)** **ISA 600[22]**

[22] ISA 600, *Special Considerations – Audit of Group Financial Statements (Including the Work of Component Auditors)*

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
		components and local branches of foreign components? - If the accounting convention / financial reporting framework adopted differs from IFRS 15, have you considered whether the financial information from these countries incorporated into the group financial statements is acceptable in terms of IFRS 15?	
13. Considerations for cross-reviews and how to address material differences of opinion between joint auditors in the recognition of revenue			
- Has your firm established policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted, with joint auditors and, where applicable, between the engagement partner and the engagement quality control reviewer?	**ISQC 1**	- Has a process between the joint auditors been agreed to perform cross-reviews regarding revenue recognition, including accounting estimates, at an early stage of the audit and throughout the audit process? - Does the agreed process between the joint auditors cater for differences of opinions between joint auditors?	**ISA 220**
14. South African Income Tax implications related to the audit engagement			
- Has your firm considered the availability of appropriate tax resources?	**ISQC 1**	- Have you considered the use of a tax specialist?	**ISA 315 (Revised)**

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
- Has your firm established policies and procedures for assigning appropriate personnel with the necessary competence, and capabilities to test South African Income Tax implications?		- Have you considered the tax implications of IFRS 15 on, but not limited to: • Deferred tax? • Assessed losses? • Tax rate reconciliation disclosures?	**ISA 620**
15. Considerations for the audit of information disclosed in the entity's financial statements			
- Has your firm established policies and procedures for assigning appropriate personnel with the necessary competence, and capabilities to test the disclosures in the financial statements?	**ISQC 1**	**NOTE:** Auditors are reminded to ensure that accounting policies disclosed in the entity's financial statements are not: • Generic or boilerplate accounting policies; and • Duplicated accounting policies. **NOTE:** Where multiple revenue streams exist, a clear identification of which of those streams contained a significant financing component to it must be disclosed. - Have you considered whether the entity provided the necessary accounting policies for all of their revenue streams by:	**ISA 315 (Revised)** **ISA 330** **ISA 450[23]** **ISA 500** **ISA 540 (Revised)** **ISA 700 (Revised)**

[23] ISA 450, *Evaluation of Misstatements Identified during the Audit*

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
		• Considering the revenue streams identified by the entity in their previous revenue accounting policy; • Evaluating the disaggregated revenue disclosures; and • Evaluating the assets reflected in the statement of financial position (such as contract assets and claims from customers)? - Have you considered whether there are any inconsistencies between the assumptions used in revenue recognition and the information disclosed in the notes to the financial statements? - Have you considered whether the disclosures in the financial statements achieve fair presentation of revenue related information in accordance with IFRS 15? - Have you considered whether the disclosures in the financial statements include, but are not limited to:	

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
		• Revenue recognised from contracts with customers, including a disaggregation of revenue into appropriate categories; • Contract balances, including the opening and closing balances of receivables, contract assets, and contract liabilities; • Performance obligations, including when the entity typically satisfies its performance obligations and the transaction price that is allocated to the remaining performance obligations in a contract; • Quantitative and/or qualitative information about assets recognised from the costs to obtain or fulfil a contract with a customer; and • Significant judgements and changes in judgements, made in applying the requirements to those contracts?	

Questions to be considered[2]			
FIRST LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
		- Have you considered whether the financial statements, read as a whole, do not provide conflicting messages? - In instances where you have concluded that disclosures in the financial statements are omitted, incomplete or inaccurate, have you evaluated the effect on the financial statements and the auditor's report? Refer to section 17 below.	
16. Considerations for the communication with TCWG			
		- Have you considered discussing the initial selection of, and changes in, significant accounting policies, including the application of new accounting pronouncements with a view to establishing whether TCWG are aware of and whether TCWG understand the impact of IFRS 15 on the financial statements?	**ISA 260 (Revised)[24]** **ISA 540 (Revised)**

[24] ISA 260 (Revised), *Communication with Those Charged With Governance*

Questions to be considered[2]			
FIRM LEVEL	**Reference to ISA/Other**	**ENGAGEMENT LEVEL**	**Reference to ISA/Other**
17. Considerations of the effect of incorrect application of the applicable financial reporting framework on the auditor's report in terms of ISA 705 (Revised)[25]			
		- Have you considered the impact of material misstatements or differences regarding IFRS 15 that may result in a modified audit opinion? - Have you considered the impact of an inability to obtain sufficient appropriate audit evidence regarding IFRS 15 that may result in a modified audit opinion?	**ISA 220** **ISA 250** **ISA 315 (Revised)** **ISA 450** **ISA 705 (Revised)**
18. Considerations for how to report Key Audit Matters (KAM) on the application of IFRS 15			
		- Have you considered communicating a KAM relating to revenue from contracts with customers? - Does the KAM fully address the requirements of ISA 701?	**ISA 260 (Revised)** **ISA 315 (Revised)** **ISA 540 (Revised)** **ISA 701**[26]

[25] ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*
[26] ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*