

Auditing Intangible Assets

The ultimate cheat sheet for external auditors testing intangible assets in small and medium-sized organizations.

- Engagement Type: External Audit
- Client Industry: General Commercial
- Standards: US GAAS/ISA
- Area: Risk Assessment/Response to Risk

Risk Assessment



Typical Risks

Risk	Risk Level	Assertions
Amortization charge may be incorrect	Normal	VA
Significant asset additions occurred	Normal	E, RO, VA
Significant asset disposals occurred	Normal	RO, C
Impairment indicators exist	Normal	VA

Other Potential Risks

Legend: E = Existence, C = Completeness, RO = Rights & Obligations, VA = Valuation & Allocation

Risk	Assertions
Fully amortized assets are not used anymore	E, VA
Asset useful lives are not appropriate	VA
Impact of assets held at fair value	VA
Revaluation of assets performed in the period	VA

Response to Risk

Example Controls to Consider Testing



Control
Costs of internally developed intangibles are reviewed
Acquired intangible assets are compared to documentation
Management reviews useful lives of intangible assets
Intangible assets are reviewed for possible impairment
Management reviews impairment testing for reasonableness
Review of intangible assets roll-forward

Common Substantive Tests of Details



Test	Assertions
Obtain and reconcile intangible assets movement schedule and detailed listing	C, VA
Test amortization expense	VA
Test intangible assets additions	E, RO, VA
Test intangible assets disposals	RO, C
Test impairment of intangible assets	VA

Ratio Analysis



Typical Ratios

Ratio	Calculation
Amortization	Amortization Costs / PP&E
Growth in Non-Current Assets	(CY Non-Current Assets - PY Non-Current Assets) / PY Non-Current Assets
Growth in Intangibles	(Closing Intangibles - Opening Intangibles) / Opening Intangibles
Income / Non-Current Assets	Income / Non-Current Assets
Income / Intangibles	Income / Intangibles
Intangible Assets %	Intangible Assets / Non-Current Assets

Additional Substantive Tests of Details

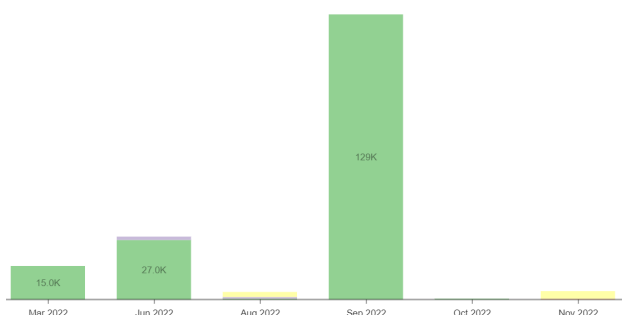


Test	Assertions
Test utilization of fully amortized assets	E, VA
Test useful lives of intangible assets	VA
Test revaluation or fair value of assets	VA
Test capitalization of borrowing costs	VA

Audit Data Analytics



Visualize intangible assets transactions by period, user, source document, etc. to investigate and test notable items.



Top Tips



- Common types of intangible assets other than goodwill include patents, trademarks, copyrights, R&D, and customer lists.
- Discuss impairment issues early with management, who may not be experienced in impairment modelling.
- Testing significant intangible assets additions and disposals are effective tests to commence at planning or interim.
- The amortization charge is often recalculated as:
Initial value / estimated useful life of asset.
- For intangible assets acquired or created during the period, review the entity's policies for accounting for intangibles and inspect documentation to confirm accounting treatment and value of the asset.
- Ensure required disclosures are included for any impairment recognized during the period
- Consider the need to remove assets with zero NBV from disclosure notes.

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