

Auditing Receivables

The ultimate cheat sheet for external auditors testing receivables 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
Balances may not exist	Normal	E
All balances have not been recorded	Normal	C
Entity does not hold or control rights	Normal	RO
Balances have not been recorded appropriately	Normal	VA

Other Potential Risks

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

Risk	Assertions
Significant credit notes received after period end	RO, VA
Significant amounts held in suspense accounts	E, VA
Impact of returns, discounts or other incentives	VA
Customers experiencing financial difficulty	VA
Significant balances written off during the period	VA
Aging of balances has deteriorated significantly	VA
Balances recorded in inappropriate accounts	RO, VA
Impact of other receivables	VA
Impact of factored or discounts balances	VA
Impact of foreign currency translations	VA
Contingent assets exist	RO, C
Increasing customer complaints	VA
Significant change in accounting estimate	VA
Customers with balances due in more than one year	VA

Response to Risk



Example Controls to Consider Testing

Control
Orders received compared to customer credit limits
Management reviews daily/weekly/monthly sales reports
Invoices generated upon appropriate sales event
Invoices reviewed and approved prior to system processing
Invoices sequentially numbered
System populates invoice prices based on approved pricing
System performs mathematical calculations for invoices
Cash receipts matched to customer accounts / invoices
Management reviews and approves bad debt provision
Credit notes are appropriately authorized
Discounts and allowances are approved
Management reviews and approves sales returns provision
Review and approval of ledger reconciliations
System applies foreign exchange to transactions correctly

Common Substantive Tests of Details



Test	Assertions
Obtain and reconcile receivables detailed listing	C, VA
Confirm receivables balances	E, RO, C, VA
Test receivables provision	VA
Test accounting estimates	C, VA

Additional Substantive Tests of Details



Test	Assertions
Evaluate receivables accounting policies	ALL
Test credit notes issued after the period end	C, VA
Test receivables suspense accounts	VA
Test reserves for returns, discounts, or other incentives	VA
Test subsequent receipts	E, RO, VA
Test customers with extended payment terms	VA
Test factored or discounted balances	VA
Test foreign currency balances in receivables	VA
Test contingent assets	E, RO, C
Test completeness of receivables	C
Test other receivables balances	E, RO, VA
Test short-term and long-term receivables classification	RO, VA

Ratio Analysis



Typical Ratios

Ratio	Calculation
Receivables Turnover	Revenue / Average Accounts Receivable
Credit Period	Average Accounts Receivable x Period Days / Revenue
Growth in Revenue	(CY Revenue – PY Revenue) / PY Revenue
Revenue Reversals: Volume	#Debit Transactions / #Credit Transactions
Liquidity	Accounts Receivable / Accounts Payable
Working Capital to Revenue	Net Current Assets / Revenue

Top Tips

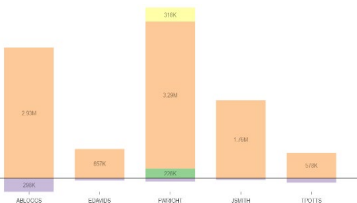


- Evaluate using email or other digital confirmations to improve response rates
- Consider confirming or testing individual invoices rather than customer balances
- When sampling, adjust the balance for credit amounts or other excluded items
- Don't simply reclassify credit balances – understand the cause and any related risks
- Value-add: benchmark receivables turnover against industry averages to quantify working capital optimization opportunities.

Substantive Audit Data Analytics



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



Analyze revenue transaction double entry combinations to investigate and test higher-risk transactions.

