Case 18-10c

Antelope Run Inc.

Antelope Run Inc. (Antelope) is a manufacturer of health and fitness products. The following is an excerpt of the process narrative that management provided to the audit engagement team for one of its reporting units, Fit Stride, which produces wearable fitness trackers. Read the narrative and complete the required discussions that follow.

Annual Forecasting Process — Overview

On an annual basis, during the month of September, Antelope prepares a revenue forecast for the fitness trackers reporting unit that includes projected revenue by product for the next five years. The preparation of the revenue forecast is owned by the Fit Stride director of sales and marketing (the "Director"), who relies on input from the sales managers, each of whom oversees sales of all Fit Stride products (Fit Band, Fit Clip, and Fit Belt) in their respective regions. The sales managers' input includes information on the following:

- The timing of new product launches.

- The price point for new products.

- Planned price changes in existing products.

- Customer relationship status.

- Customer demand cycles.

- Customer strategic plans, such as plans to add additional retail locations, customer contract terms, and historical sales trends by customer.

Once the Director receives input from the sales managers, the revenue forecast is developed on a product-by-product basis using historical sales data for existing products or, for new product launches, historical sales data for similar products, in addition to the input provided by the sales managers as outlined above. The historical sales data used is disaggregated at the customer level. The Director also uses industry data to refine the revenue forecast, including data on the manufacture and retail of wearable fitness trackers. Example sources include analyst reports for peer companies, analyst reports for significant customers, and *Heart Healthy Quarterly* (a leading industry publication on fitness trackers).

Annual Fitness Trackers Revenue Forecast Review Meeting

The Director presents the revenue forecast to the fitness trackers business planning committee (the "BPC") for review and comment during its annual meeting. The BPC is composed of the following:

- Chief executive officer — Antelope.

- Chief financial officer — Antelope.

- Chief operating officer — Antelope.

- Chief legal office — Antelope.

- Director of financial planning and analysis (FP&A) — Antelope.

- Controller — Fit Stride.

- Director of finance — Fit Stride.

The purpose of the BPC's review of the forecast is to ensure the forecast is an appropriate expectation of future results for the fitness trackers reporting unit because this information will be used in the annual goodwill impairment assessment for the reporting unit. The meeting begins with the presentation and review of the forecast by product. The following information is discussed:

- Forecasted vs. historical sales volumes for each fitness tracker product.

- Forecasted vs. historical sales price per unit for each fitness tracker product.

- Forecasted sales price per unit vs. comparable competitor's sales prices per unit for each fitness tracker product.

- Prior forecasted revenues by product vs. actual sales revenue for the prior three years.

The meeting continues with the presentation and review of the forecast for the overall fitness trackers reporting unit. The following information is discussed:

- Forecasted vs. historical revenues.

- Forecasted vs. historical year-over-year percentage change in revenues.

- Current-year vs. prior-year forecasted revenues.

- Forecasted year-over-year percentage change in revenues vs. forecasted year-over-year percentage change in industry and peer-company revenues.

- Prior forecasted revenues by reporting unit vs. actual sales revenue for the prior three years.

After the information has been presented, the Director is responsible for compiling the comments and questions posed by the BPC and making revisions to the forecast using Hyperion Financial Management software (Hyperion). The Director then sends an e-mail confirming the completion of the revisions, along with the revised forecast, to the Director of FP&A for final review and approval. The Director of FP&A reviews the amounts in the forecast in Hyperion to ensure the edits have been made appropriately and confirms completion of the review and approval of the revenue forecast via e-mail.

The risk of material misstatement (RoMM) has been identified as the following:

RoMM Classification	RoMM Description
Significant	Management's revenue projections and revenue growth rate assumptions that are used in various estimates may not be based on the best and most supportable information and contain a high degree of estimation uncertainty. Specifically, management's estimates of revenue growth are not only aggressive when compared to the historical performance of the Fit Stride products, but also incorporate subjective assumptions associated with revenue growth of the new Fit Belt product line.

Management has identified the following relevant control to address the RoMM:

Control Number	Control Activity Description
C-5	The BPC meets to review, challenge, and approve the revenue forecast for the fitness trackers reporting unit for appropriateness using historical performance, knowledge of management's strategic plans, industry projections, and peer-company data.

Required:

Evaluate the sufficiency of audit documentation, improvements to audit documentation, and key considerations for each of the following components of the audit documentation performed by the engagement team:

- Component A — Control Description
- Component B — Test of Design
- Component C — Evaluation of Design
- Component D — Test of Operating Effectiveness

1. **Discussion 1 — Sufficiency of Audit Documentation**

   What are your observations regarding the sufficiency of the audit documentation?

2. **Discussion 2 — Improvements to Audit Documentation**

   What specific improvements would you make to the audit documentation?

3. **Discussion 3 — Key Considerations**

   What are some key points to remember when performing and documenting control procedures specific to each component?