

Resurrecting revenue from within

A directed royalty review can breathe new life into your organization

By David Malamed, CA-IFA, CPA (Illinois), CFE

As the instability of the economy increases, companies turn within, seeking to secure budgets and targets by revitalizing structured revenue streams. Contractual royalty revenue—identified as “low hanging fruit ready for the picking” by internal auditors—is a prime potential source of revenue rejuvenation; however, royalty revenue in some companies has been declining or stagnating.

The effect of such losses on EBITA has proven a significant management challenge due to the difficulty involved in identifying direct causes. There are, however, a variety of options for an organization to mitigate this. One is a royalty review to assist in identifying and recovering leakage of revenue due on the sale of assets, services and intellectual properties. It’s a methodology that includes reviewing records to identify the under-reporting and underpayment of royalties owing. Several other options can be implemented, including stringent reporting standards and required supplementary reporting. A royalty review is typically more effective, though, because it not only highlights possible foregone past revenue that may be recaptured, it also identifies future controls to increase royalty revenue reporting transparency on a go-forward basis.



Because a well-crafted contract permits the periodic review and inspection of financial information that supports reported royalties, it's imperative that a periodic review of revenue streams becomes part of your company's mandate. This will allow you to identify compliance with contract terms, the possible under-reporting of royalty payments and any other errors that may exist. Under-reporting, for example, can be due to one, or a mix, of the following:

- the exclusion of specific revenue streams, including cash, non-primary and new sources of revenue
- reporting errors
- misunderstanding of royalty agreement terms

While errors can be intentional or unintentional, the focus of a royalty review is often on quantifying the under-reported revenue and pinpointing its cause—as opposed to establishing fraud—thereby preserving future business relationships. This type of review can be beneficial to a wide variety of businesses that earn royalty revenue, including technology companies, malls, airports, franchisors, landlords, associations and not-for-profits.

The current corporate environment contributes to the complexity of the issue. Stabilization strategies such as workforce reduction increase overall fraud risks while the resulting reduction in internal controls effectiveness may lead to under-reported royalty revenue being overlooked. And the complexity of revenue-related fraud schemes incorporated with the current economy's unconfirmed "recession" make it even more difficult to identify under-reported earnings. It's clear that a periodic, directed royalty review is more important than ever for your organization.

David Malamed CA, IFA, CPA (Illinois), CFE is a forensic partner with Grant Thornton LLP. He can be reached at (416) 360-3382 or dmalamed@GrantThornton.ca.

About Grant Thornton in Canada

Grant Thornton LLP is a leading Canadian accounting and advisory firm providing audit, tax and advisory services to private and public organizations. Together with the Quebec firm Raymond Chabot Grant Thornton LLP, Grant Thornton has more than 3,100 people in offices across Canada. Grant Thornton LLP is a Canadian member of Grant Thornton International Ltd (Grant Thornton International), whose member and correspondent firms operate in over 100 countries worldwide.

About Grant Thornton International Ltd

Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently.