

**SA 560 Subsequent Events**

**Subsequent events** – Events occurring between date of F.S. & date of auditor's report, & **facts that become known** to auditor **after date of auditor's report**.

It doesn't deal with matters relating to auditor's responsibilities for other info. obtained after date of auditor's report, which are addressed in SA 720.

**Types Of Events**

- a) Those that provide evidence of conditions that **existed at date of F.S (Require Adjustment)**; &
- b) Those that provide evidence of conditions that **arose after date of F.S (Only disclosure)**.

**Events Occurring Between the Date of FS and Date of Auditor's Report**

Auditor shall perform audit procedures designed to obtain SAAE that all events occurring b/w date of F.S. & date of auditor's report that require adjustment of, or disclosure in, F.S. **have been identified**.

Auditor shall take into account auditor's risk assessment in determining nature & extent of such audit procedures, which shall include following:

- a) **Obtaining understanding** of any procedures Mgt. has established to ensure that subsequent events are identified.
- b) **Inquiring of Mgt. & TCWG** as to whether any subsequent events have occurred which might affect F.S.
- c) **Reading minutes** of meetings, of entity's owners, Mgt. & TCWG, that have been held after date of F.S. & inquiring about matters discussed at any such meetings for which minutes are not yet available.
- d) Reading entity's **latest subsequent interim F.S.**

If auditor identifies events that require adjustment of, or disclosure in, F.S. - determine whether each such event is appropriately reflected in those FS.

**Written Representations**

Obtain WR, that all events occurring subsequent to date of F.S. & for which **FRF requires adjustment or disclosure have been adjusted or disclosed**.

**Auditor inquire specific inquiries about the following matters:**

- 1) Whether **new commitments, borrowings or guarantees** have been entered into.
- 2) Whether any **increases in capital or issuance of debt instruments**, such as issue of new shares or debentures, or an agreement to merge or liquidate has been made or is planned.
- 3) Whether **sales/acquisitions of assets** have occurred or are planned.
- 4) Whether any events have occurred that are relevant to **recoverability of assets**.
- 5) Whether any **assets** have been **appropriated by government** or destroyed, for example, by fire or flood.
- 6) Whether there have been any developments regarding **contingencies**.
- 7) Whether any **unusual accounting adjustments** have been made or are contemplated.

**Facts Which Become Known to Auditor After Date of Auditor's Report but Before Date F.S. are Issued**

Auditor has **no obligation** to perform any audit procedures regarding F.S. after date of auditor's report.

However, **if fact becomes known to auditor that, had it been known to auditor at date of auditor's report**, may have caused auditor to **amend auditor's report**, he shall:

- (a) **Discuss** matter with Mgt. & TCWG.
- (b) Determine **whether F.S. need amendment** and, if so,
- (c) **Inquire** how Mgt. intends to address matter in F.S.

**If Mgt. amends F.S., Auditor shall:**

- a) **Carry out audit procedures necessary** in circumstances on amendment.
- b) **Extend audit procedures** to date of new auditor's report; &
- c) **Provide new auditor's report on amended F.S. not be dated earlier than date of approval of amended F.S.**

**When law, regulation or FRF doesn't prohibit Mgt.** from restricting amendment of F.S. to effects of subsequent events, auditor is permitted to restrict audit procedures to that amendment. In such cases, he shall **either:**

<p><b>Amend auditor's report to include additional date</b> restricted to that amendment that <u>indicates that auditor's procedures on subsequent events are restricted solely to amendment of F.S. described in relevant note to F.S.;</u> or</p>	<p><b>Provide new or amended auditor's report</b> that includes statement in <b>EOM para or OM para</b> that conveys <u>that auditor's procedures on subsequent events are restricted solely to amendment of F.S. as described in relevant note to F.S.</u></p>
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In some entities, Mgt. may not be required by applicable law, regulation or FRF to issue amended FS and, accordingly, auditor need not provide amended or new auditor's report.

However, when **Mgt. doesn't amend the FS** in circumstances where the auditor believes they need to be amended, then:

<p>If auditor's report has <b>not yet been provided to entity :- Modify opinion</b> as required by SA 705 &amp; then provide auditor's report; <b>or</b></p>	<ul style="list-style-type: none"> <li>- If auditor's report has already been provided to entity:- <b>Notify Mgt.</b> &amp;, unless all of TCWG are involved in managing entity, TCWG, <b>not to issue F.S. to 3<sup>rd</sup> parties before necessary amendments have been made.</b></li> <li>- If FS are <u>subsequently issued without necessary amendments</u>, - <b>take appropriate action, to seek to prevent reliance on auditor's report.</b></li> </ul>
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**Facts Which Become Known to Auditor After FS have been Issued**

After F.S. have been issued, he has **no obligation** to perform any audit procedures regarding such F.S.

However, when, after F.S. have been issued, fact becomes known to auditor that, had it been known to auditor at date of auditor's report, **may have caused auditor to amend auditor's report**, he shall:

- (a) **Discuss** matter with Mgt. & TCWG.
- (b) **Determine** whether F.S. need amendment &, if so,
- (c) **Inquire** how Mgt. intends to address matter in F.S.

**If the Mgt. amends F.S., Auditor shall:**

- a) **Carry out audit procedures necessary** in circumstances on amendment.
- b) **Review steps taken by Mgt.** to ensure that anyone in receipt of previously issued F.S. together with auditor's report thereon is informed of the situation.
- c) Unless the circumstances of restricted amendment apply:
  - **Extend audit procedures** to date of new auditor's report, & **date new auditor's report no earlier than date of approval of amended F.S;** and
  - Provide **new auditor's report on amended F.S.**
- d) When law, regulation or FRF doesn't prohibit, amend auditor's report, or provide new auditor's report.

Auditor shall include in new or amended auditor's report an **EOM para or OM para** referring to a note to F.S. that more extensively discusses reason for amendment of previously issued F.S. & to earlier report provided by auditor.

If **Mgt. does not take necessary steps** to ensure that anyone in receipt of previously issued F.S. is informed of situation & does not amend F.S. in circumstances where auditor believes they need to be amended, auditor shall notify Mgt. &, unless all of TCWG are involved in managing entity, TCWG, that auditor will seek to prevent future reliance on auditor's report.

Despite such notification, Mgt. or TCWG **do not take these necessary steps**, auditor shall take **appropriate action** (i.e. legal) to seek to **prevent reliance on auditor's report**.

**SA 570 Going Concern**

**Scope**

This SA deals with

- auditor's responsibilities in audit of FS relating to GC & implications for auditor's report.

SA 701 deals with auditor's responsibility to communicate KAM in auditor's report.

That SA acknowledges that, when SA 701 applies, matters relating to GC may be determined to be KAM, & explains that material uncertainty related to events or conditions that may cast significant doubt on entity's ability to continue as GC is, by its nature, a KAM.

**GC Basis of Accounting**

- Under GC basis of accounting, FS are prepared on assumption that entity is a GC & will continue its operations for foreseeable future.
- General purpose FS are prepared using GC basis of accounting, unless Mgt. either intends to liquidate entity or to cease operations, or has no realistic alternative but to do so.
- Special purpose FS may or may not be prepared in accordance with a FRF for which GC basis of accounting is relevant.
- When use of GC basis of accounting is appropriate, assets & liabilities are recorded on basis that entity will be able to realize its assets & discharge its liabilities in normal course of business.

**Responsibility for Assessment of the Entity's Ability to Continue as a GC (Review)**

Mgt. to assess entity's ability to continue as GC even if FRF doesn't include an explicit requirement to do so.

Mgt.'s assessment of entity's ability to continue as GC involves making judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions.

Following factors are relevant to that judgment:

- Degree of uncertainty associated with outcome of event or condition increases significantly further into future an event or condition or outcome occurs.
- Size & complexity of entity, nature & condition of its business & degree to which it is affected by external factors affect judgment regarding outcome of events or conditions.
- Any judgment about future is based on info. available at the time at which judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

**Examples of events or conditions that may cast significant doubt on entity's ability to continue as a GC**

**Financial**

- Net liability or net current liability position.
- Indications of withdrawal of financial support by creditors.
- Negative operating cash flows indicated by historical or prospective FS.
- Adverse key financial ratios.
- Substantial operating losses or significant deterioration in value of assets used to generate cash flows.
- Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.
- Inability to comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain financing for essential new product development or other essential investments.

**Operating**

- Mgt. intentions to liquidate entity or to cease operations.
- Loss of key Mgt. without replacement.
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
- Labor difficulties.
- Shortages of important supplies.
- Emergence of highly successful competitor.

**Other**

- Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
- Pending legal or regulatory proceedings against entity that may, if successful, result in claims that entity is unlikely to be able to satisfy.
- Changes in law or regulation or government policy expected to adversely affect the entity.
- Uninsured or underinsured catastrophes when they occur.

**Responsibilities/Objectives of Auditor**

- To obtain SAAE regarding, & conclude on, appropriateness of Mgt.'s use of the GC basis of accounting in preparation of the F.S., &
- To conclude, based on AE obtained, whether material uncertainty exists about entity's ability to continue as GC.
- These responsibilities exist even if FRF used in preparation of the F.S doesn't include explicit requirement for Mgt. to make specific assessment of entity's ability to continue as GC.

- However, as described in SA 200, potential effects of inherent limitations on auditor's ability to detect MM are greater for future events or conditions that may cause an entity to cease to continue as GC. Auditor can't predict such future events or conditions.
- Accordingly, absence of any reference to material uncertainty about entity's ability to continue as GC in auditor's report can't be viewed as guarantee as to entity's ability to continue as GC.

**Risk Assessment Procedures and Related Activities**

When performing RAP as required by SA 315, auditor shall consider whether events or conditions exist that may cast significant doubt on entity's ability to continue as GC.

In so doing, he shall determine whether Mgt. has already performed a preliminary assessment of entity's ability to continue as GC, and:

If such assessment has been performed	If such assessment has not yet been performed
Discuss assessment with Mgt. & Determine whether Mgt. has identified events or conditions that, may cast significant doubt on entity's ability to continue as GC and, if so, Mgt.'s plans to address them;	Discuss with Mgt. basis for intended use of GC basis of accounting, & Inquire of Mgt. whether events or conditions exist that, may cast significant doubt on entity's ability to continue as GC.

Auditor shall remain alert throughout audit for AE of events or conditions that may cast significant doubt on entity's ability to continue as a GC.

**Evaluating Mgt.'s Assessment**

- Auditor shall evaluate Mgt.'s assessment of entity's ability to continue as GC.
- Auditor shall cover same period as that used by Mgt. to make its assessment as required by applicable FRF, or by law or regulation if it specifies a longer period.
- If Mgt.'s assessment covers less than 12 months from date of FS as defined in SA 560, shall request Mgt. to extend its assessment period to at least 12 months from that date.
- Consider whether Mgt.'s assessment includes all relevant info. of which auditor is aware as a result of audit.

### Additional Audit Procedures When Events or Conditions are Identified

- Where Mgt. has **not yet performed an assessment** of entity's ability to continue as a GC, **requesting Mgt. to make its assessment**.
- Evaluating Mgt.'s plans** for future actions in relation to its GC assessment, whether **outcome of these plans is likely to improve situation** & whether Mgt.'s plans **are feasible** in circumstances.
- Where entity **has prepared cash flow forecast & analysis of forecast is significant factor** in considering future outcome of events or conditions in evaluation of Mgt.'s plans for future actions:

**Evaluating reliability of underlying data** generated to prepare forecast;

**Determining whether there is adequate support** for assumptions underlying forecast.

- Considering whether **any additional facts or info.** have become available since date on which Mgt. made its assessment.
- Requesting WR from Mgt. & TCWG**, regarding their plans for future actions & feasibility of these plans.

### Additional Audit Procedures :

- Analyzing & discussing **cash flow, profit** & other relevant forecasts with Mgt.
- Analyzing & discussing entity's latest available **interim FS**.
- Reading **terms of debentures & loan agreements** & determining whether any have been breached.
- Reading **minutes of meetings** of shareholders, TCWG & relevant committees for reference to financing difficulties.
- Inquiring of **entity's legal counsel** regarding **existence of litigation & claims** and reasonableness of Mgt.'s assessments of **their outcome & estimate of their financial implications**.
- Evaluating entity's plans to deal with **unfilled customer orders**.
- Confirming existence, terms & adequacy of **borrowing facilities**.
- Obtaining & reviewing **reports of regulatory actions**.
- Determining adequacy of support for any **planned disposals of assets**.

### Communication with TCWG

- Whether events or conditions constitute material uncertainty;
- Whether Mgt.'s use of GC basis of accounting is appropriate in preparation of FS;
- Adequacy of related disclosures in FS; &
- Where applicable, implications for auditor's report.

### Significant Delay in Approval of FS

- Auditor shall **inquire** as to reasons for delay.
- If auditor believes that **delay could be related to events or conditions relating to GC assessment**, he shall **perform those additional audit procedures necessary** & consider effect on auditor's conclusion regarding existence of material uncertainty.

### Auditor Conclusions

- Auditor shall evaluate **whether SAAE has been obtained** regarding, & shall **conclude on appropriateness of Mgt.'s use of GC basis of accounting** in preparation of FS.
- **Based on AE obtained**, he shall **conclude** whether, in his judgment, a **material uncertainty exists** related to events or conditions that, individually or collectively, may cast significant doubt on entity's ability to continue as a GC.
- **Material uncertainty exists when magnitude of its potential impact & likelihood of occurrence** is such that appropriate disclosure of nature & implications of uncertainty is necessary for:

In the case of a fair presentation FRF	In the case of a compliance framework
<b>Fair presentation of FS</b>	<b>FS not to be misleading</b>

### Adequacy of Disclosures

#### When Events or Conditions Have Been Identified & Material Uncertainty Exists

If auditor concludes that Mgt.'s use of GC basis of accounting is appropriate in circumstances but material uncertainty exists, auditor shall determine whether FS:

- Adequately disclose** principal events or conditions that may cast significant doubt on entity's ability to continue as GC & **Mgt.'s plans** to deal with these events or conditions; &
- Disclose clearly** that there is material uncertainty related to events or conditions that may cast significant doubt on entity's ability to continue as GC & therefore, that it may be **unable to realize** its assets & discharge its liabilities in normal course of business.

#### When Events or Conditions Have Been Identified but No Material Uncertainty Exists

Auditor shall evaluate whether **FS provide adequate disclosures** about these events or conditions.

### Implications for the Auditor's Report

**Use of GC Basis of Accounting is Inappropriate** - Auditor shall express **adverse opinion**.

**Use of GC Basis of Accounting is Appropriate but Material Uncertainty Exists**

**Adequate Disclosure of Material Uncertainty is Made in F.S.**

Auditor shall **express unmodified opinion** & auditor's report shall include **separate section** under heading "**Material Uncertainty Related to GC**" to:

- Draw attention to note in FS** that discloses the matters; &
- State** that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on entity's ability to continue as GC & that auditor's opinion is **not modified** in respect of that matter.

**Adequate Disclosure of Material Uncertainty is Not Made in F.S.**

Auditor shall:

- Express **qualified or adverse opinion**, as appropriate, in accordance with SA 705; &
- In Basis for Qualified (Adverse) Opinion section** of auditor's report, state that material uncertainty exists that may cast significant doubt on entity's ability to continue as a GC & that **FS do not adequately disclose this matter**.

**Mgt. Unwilling to Make or Extend Its Assessment** - when requested to do so by auditor, he shall **consider implications for auditor's report**.

## SA 580 Written Representation

- ❑ WR by Mgt. provided to auditor to **confirm certain matters** or to **support other AE**.
- ❑ WR in this context **don't include** FS, assertions therein, or supporting books & records.

## Objectives

- a) To obtain WR from Mgt. & TCWG that they believe that they have fulfilled their responsibility for preparation of FS & for completeness of info. provided to auditor;
- b) To support other audit evidence relevant to FS or specific assertions in FS
- c) To respond appropriately to WR provided by Mgt. & TCWG, or if Mgt. or, TCWG **do not provide** WR requested by auditor.

## Date of and Period(s) Covered by WR

## Date

- ❑ Date of WR shall be **as near as practicable to, but not after, date of auditor's report on F.S.**
- ❑ Because WR are necessary AE, **auditor's opinion cannot be expressed, & auditor's report can't be dated, before date of WR.**
- ❑ In some circumstances it may be appropriate for auditor to **obtain a WR about a specific assertion in FS** during course of audit. Where this is the case, it may be necessary to **request updated WR**

## Period

- ❑ WR shall be for **all F.S. & period(s) referred to in auditor's report.**
- ❑ **WR are for all periods referred to in auditor's report because Mgt. needs to reaffirm** that WR it **previously made** W.r.t prior periods remain appropriate.
- ❑ Auditor & Mgt. **may agree to a form of WR that updates WR relating to prior periods** by addressing whether there are any changes to such WR and, if so, what they are.
- ❑ **Situations may arise where current Mgt. were not present during all periods referred to in auditor's report.** Such persons may assert that they are not in a position to provide some or all of the WRs because they were not in place during the period.
- ❑ This fact, however, **does not diminish** such persons responsibilities for FS as a whole. Accordingly, the requirement for auditor to request from them WRs that cover whole of the relevant period(s) still applies.

## Doubt as to Reliability of WR

- ❑ If auditor has **concerns** about competence, integrity, ethical values or diligence of Mgt., he shall **determine effect** that such concerns may have on reliability of representations (oral or written) & audit evidence in general.
- ❑ If **WRs are inconsistent with other AE**, he shall perform audit procedures to attempt to resolve the matter.
- ❑ If **matter remains unresolved**, he shall **reconsider assessment of competence, integrity, ethical values or diligence of Mgt.**, & shall determine effect that this may have on reliability of representations (oral or written) & audit evidence in general.
- ❑ If auditor concludes that WRs are **not reliable**, he shall **take appropriate actions**, including determining possible effect on opinion in auditor's report as per SA 705 i.e. **disclaim an opinion.**

## Requested WR Not Provided

If Mgt. **doesn't provide** one or more of requested WRs, auditor shall:

- a) **Discuss** matter with Mgt.
- b) **Re-evaluate** integrity of Mgt. & **evaluate effect** that this may have on reliability of representations (oral or written) & **AE** in general; and
- c) **Take appropriate actions**, including determining possible effect on opinion in auditor's report as per **SA 705** i.e. **disclaim an opinion.**

## WR about Mgt.'s Responsibilities

Auditor shall **disclaim an opinion** on F.S. as per SA 705 if:

- a) Auditor concludes that there is sufficient doubt about integrity of Mgt. such that **WR are not reliable**; or
- b) Mgt. doesn't provide WR.

Q- An auditor of Sagar Ltd. was **not able to get the confirmation** about existence and value of certain machineries.

However, the Mgt. gave him a certificate to prove the existence and value of the machinery as appearing in the books of account.

Auditor **accepted the same without any further procedure** and signed the audit report. Is he right in his approach?

## Validity of Written Representation:

Physical verification of fixed assets is the primary responsibility of the Mgt..

Auditor, however, is required to examine the verification programme adopted by the Mgt.

He must satisfy himself about the existence, ownership and valuation of fixed assets.

In the case of Sagar Ltd., the auditor has not been able to verify the existence and value of some machinery despite the verification procedure followed in routine audit. He accepted the certificate given to him by the Mgt. **without making any further enquiry.** As per SA 580 "Written Representations", when representation relate to matters which are material to the financial information, then the auditor **should seek corroborative audit evidence from other sources inside or outside the entity.** He should evaluate whether such representations are reasonable and consistent with other evidences and should consider whether individuals making such representations can be expected to be well informed on the matter.

"Written Representations" **cannot be a substitute for other audit evidence that the auditor could reasonably expect to be available.** If the auditor is unable to obtain sufficient appropriate audit evidence that he believes would be available regarding a matter which has or may have a material effect on the financial information, this will constitute a limitation on the scope of his examination even if he has obtained a representation from Mgt. on the matter. Therefore, the approach adopted by the auditor is not right.