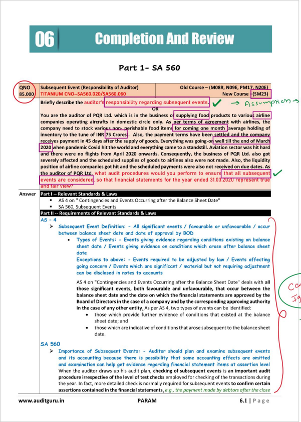
Ch 06 PARAM

Tuesday, 12 March 2024 5:05 PM

Ch 06
PARAM

Subsequents Events → Responsibility of Auditor
↗ Till signing Audit Report
↘ After signing Auditors
↗ Till date of publishing
↘ After date of publishing



06 Completion And Review

Part 1- SA 560

QNO 85.000	Subsequent Event (Responsibility of Auditor) TITANIUM CNO--SA560.020/SA560.060	Old Course – (M08R, N09E, PM17, N20E) New Course - (SM23)

Briefly describe the auditor's responsibility regarding subsequent events. ✓ → Assumption → Till date of signing Audit Report

OR

You are the auditor of PQR Ltd. which is in the business of supplying food products to various airline companies operating aircrafts in domestic circle only. As per terms of agreement with airlines, the company need to stock various non- perishable food items for coming one month average holding of inventory to the tune of INR 75 Crores. Also, the payment terms have been settled and the company receives payment in 45 days after the supply of goods. Everything was going-on well till the end of March 2020 when pandemic Covid hit the world and everything came to a standstill. Aviation sector was hit hard and there were no flights from April 2020 onwards. Consequently, the business of PQR Ltd. also got severely affected and the scheduled supplies of goods to airlines also were not made. Also, the liquidity position of airline companies got hit and the scheduled payments were also not received on due dates. As the auditor of PQR Ltd. what audit procedures would you perform to ensure that all subsequent events are considered, so that financial statements for the year ended 31.03.2020 represent true and fair view? ✓

Answer

Part I -- Relevant Standards & Laws

- AS 4 on " Contingencies and Events Occurring after the Balance Sheet Date"
- SA 560, Subsequent Events

Part II -- Requirements of Relevant Standards & Laws

AS - 4

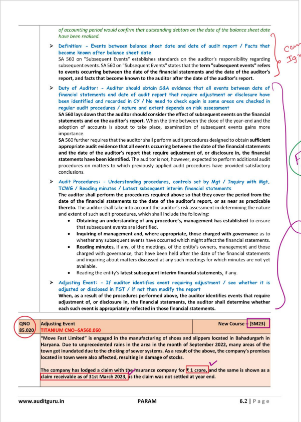
- **Subsequent Event Definition: - All significant events / favourable or unfavourable / occur between balance sheet date and date of approval by BOD**
  - **Types of Events: - Events giving evidence regarding conditions existing on balance sheet date / Events giving evidence on conditions which arose after balance sheet date**
    Exceptions to above: - Events required to be adjusted by law / Events affecting going concern / Events which are significant / material but not requiring adjustment can be disclosed in notes to accounts

    AS 4 on "Contingencies and Events Occurring after the Balance Sheet Date" deals with **all those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company and by the corresponding approving authority in the case of any other entity**. As per AS 4, two types of events can be identified:
    - those which provide further evidence of conditions that existed at the balance sheet date; and
    - those which are indicative of conditions that arose subsequent to the balance sheet date.

Can Ignore

SA 560

- **Importance of Subsequent Events: - Auditor should plan and examine subsequent events and its accounting because there is possibility that some accounting effects are omitted and examination can help get evidence regarding financial statement items at assertion level**
  When the auditor draws up his audit plan, **checking of subsequent events** is **an important audit procedure irrespective of the level of test checks** employed for checking of the transactions during the year. In fact, more detailed check is normally required for subsequent events **to confirm certain assertions contained in the financial statements**, *e.g., the payment made by debtors after the close*



of accounting period would confirm that outstanding debtors on the date of the balance sheet date have been realised.

- **Definition: - Events between balance sheet date and date of audit report / Facts that become known after balance sheet date**
  SA 560 on "Subsequent Events" establishes standards on the auditor's responsibility regarding subsequent events. SA 560 on "Subsequent Events" states that the **term "subsequent events" refers to events occurring between the date of the financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report.**

Can Ignore

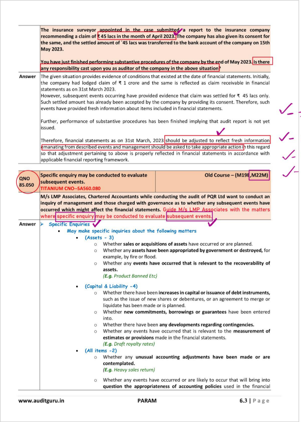
- **Duty of Auditor: - Auditor should obtain S&A evidence that all events between date of financial statements and date of audit report that require adjustment or disclosure have been identified and recorded in CY / No need to check again is some areas are checked in regular audit procedures / nature and extent depends on risk assessment**
  SA 560 lays down that the auditor should consider the effect of subsequent events on the financial statements and on the auditor's report. When the time between the close of the year-end and the adoption of accounts is about to take place, examination of subsequent events gains more importance.
  SA 560 further requires that the auditor shall perform audit procedures designed to obtain **sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified.** The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions.
- **Audit Procedures: - Understanding procedures, controls set by Mgt / Inquiry with Mgt, TCWG / Reading minutes / Latest subsequent interim financial statements**
  The auditor shall perform the procedures required above so that they cover the period from the date of the financial statements to the date of the auditor's report, or as near as practicable thereto. The auditor shall take into account the auditor's risk assessment in determining the nature and extent of such audit procedures, which shall include the following:
  - **Obtaining an understanding of any procedure's, management has established** to ensure that subsequent events are identified.
  - **Inquiring of management and, where appropriate, those charged with governance** as to whether any subsequent events have occurred which might affect the financial statements.
  - **Reading minutes,** if any, of the meetings, of the entity's owners, management and those charged with governance, that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available.
  - Reading the entity's **latest subsequent interim financial statements**, if any.
- **Adjusting Event: - If auditor identifies event requiring adjustment / see whether it is adjusted or disclosed in FST / if not then modify the report**
  When, as a result of the procedures performed above, the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements.

Focus

QNO 85.020	Adjusting Event TITANIUM CNO--SA560.060	New Course - (SM23)

"Move Fast Limited" is engaged in the manufacturing of shoes and slippers located in Bahadurgarh in Haryana. Due to unprecedented rains in the area in the month of September 2022, many areas of the town got inundated due to the choking of sewer systems. As a result of the above, the company's premises located in town were also affected, resulting in damage of stocks.

The company has lodged a claim with the insurance company for ₹ 1 crore, and the same is shown as a claim receivable as of 31st March 2023, as the claim was not settled at year end.



The insurance surveyor appointed in the case submitted a report to the insurance company recommending a claim of ₹ 45 lacs in the month of April 2023. The company has also given its consent for the same, and the settled amount of `45 lacs was transferred to the bank account of the company on 15th May 2023.

You have just finished performing substantive procedures of the company by the end of May 2023. Is there any responsibility cast upon you as auditor of the company in the above situation?

Answer

The given situation provides evidence of conditions that existed at the date of financial statements. Initially, the company had lodged claim of ₹ 1 crore and the same is reflected as claim receivable in financial statements as on 31st March 2023.
However, subsequent events occurring have provided evidence that claim was settled for ₹ 45 lacs only. Such settled amount has already been accepted by the company by providing its consent. Therefore, such events have provided fresh information about items included in financial statements.

Further, performance of substantive procedures has been finished implying that audit report is not yet issued.

Therefore, financial statements as on 31st March, 2023 should be adjusted to reflect fresh information emanating from described events and management should be asked to take appropriate action in this regard so that adjustment pertaining to above is properly reflected in financial statements in accordance with applicable financial reporting framework.

✓- Ind AS 10 / AS 4 → Subsequent Event → Adjusting ✓ → Non Adjusting ✓
✓- Auditor's Responsibility
✓- Case Discussion
✓- Conclusion

QNO 85.050	Specific enquiry may be conducted to evaluate subsequent events. TITANIUM CNO--SA560.080	Old Course – (M19E,M22M)

M/s LMP Associates, Chartered Accountants while conducting the audit of PQR Ltd want to conduct an inquiry of management and those charged with governance as to whether any subsequent events have occurred which might affect the financial statements. Guide M/s LMP Associates with the matters where specific enquiry may be conducted to evaluate subsequent events.

Answer

- Specific Enquiries
  - May make specific inquiries about the following matters
    - (Assets - 3)
      - Whether **sales or acquisitions of assets** have occurred or are planned.
      - Whether any **assets have been appropriated by government or destroyed,** for example, by fire or flood.
      - Whether any **events have occurred that is relevant to the recoverability of assets.**
        (E.g. Product Banned Etc)
    - (Capital & Liability -4)
      - Whether there have been **increases in capital or issuance of debt instruments,** such as the issue of new shares or debentures, or an agreement to merge or liquidate has been made or is planned.
      - Whether **new commitments, borrowings or guarantees** have been entered into.
      - Whether there have been **any developments regarding contingencies.**
      - Whether any events have occurred that is relevant to the **measurement of estimates or provisions** made in the financial statements.
        (E.g. Draft royalty rates)
    - (All items -2)
      - Whether any **unusual accounting adjustments have been made or are contemplated.**
        (E.g. Heavy sales return)
      - Whether any events have occurred or are likely to occur that will bring into **question the appropriateness of accounting policies** used in the financial

statements, as would be the case, for example, if such events call into question the validity of the going concern assumption.
(E.g. Sale of Long-term Investments)

QNO 85.100 **Financial Statements Reopened by BOD** **Old Course – (N18E)**
TITANIUM CNO--SA560.100 **New Course – (SM23)**

Amudhan & Co. are the Auditors of XYZ Company Ltd., for the year ended on 31/03/2018. The Audit Report for that year was signed by the Auditors on 04/05/2018. The Annual General Meeting was decided to be held during the month of August 2018. On 06/05/2018, the Company had received a communication from the Central Government that an amount of Rs.5800 crores kept pending on account of incentives pertaining to Financial Year 2017-18 had been approved and the amount would be paid to the Company before the end of May 2018. To a query to Chief Financial officer of the Company by the Board, it was informed that this amount had not been recognised in the Audited Financial Statements in view of the same not being released before the close of the Financial Year and due to uncertainty of receipt. Now, having received the amount, the Board of Directors wished to include this amount in the Financial Statements of the Company for the Financial Year ended on 31/03/2018. On 08/05/2018, the Board amended the accounts, approved the same and requested the Auditor to consider this event and issue a fresh Audit Report on the Financial Statements for the year ended on 31/03/2018. Analyse the issues involved and give your views as to whether or not the Auditors could accede to the request of the Board of Directors.

Answer

Part I -- Relevant Standards & Laws

- SA 560, Subsequent Events

Part II -- Requirements of Relevant Standards & Laws

- **Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued:**

SA 560

- **No obligation to perform audit procedures after date of audit report**
  As per SA 560, "Subsequent Events", the auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report.
- **If information would have changed opinion, then audit procedures required**
  However, when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall
  - Discuss the matter with management and, where appropriate, those charged with governance
  - Determine whether the financial statements **need amendment** and, if so,
  - Inquire how management **intends to address the matter** in the financial statements.
  - If management amends the financial statements, the auditor shall carry out the audit procedures necessary in the circumstances on the amendment. Further, **the auditor shall extend the audit procedures and provide a new auditor's report** on the amended financial statements. However, the new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.

Part III – Case Discussion

- In the instant case, XYZ Company Ltd. received an amount of rupees 5800 crore on account of incentives pertaining to year 2017-18 in the month of May 2018 i.e. after finalization of financial statements and signing of audit report. Board of Directors of XYZ Ltd. amended the accounts, approved the same and requested the Amudhan & Co. (auditor) to consider this event and issue a fresh audit report on the financial statements for the year ended on 31.03.2018.

Part IV -- Conclusion

- After applying the conditions given in SA 560, Amudhan & Co. can issue new audit report subject to date of audit report which should not be earlier than the date of approval of the amended financial statements.

QNO 87.500 **Subsequent Event-- After Audit Report-- Financial Statements Amended** **Old Course – (N21R)**
TITANIUM CNO--SA560.100

The audit report of Kolsi (P) Ltd. for F.Y. 2020-21 was issued by Bishnoi & Co. on 25th July, 2021. However, a case was filed against Kolsi (P) Ltd. on 4th August, 2021, with the Civil Court, with respect to an incident caused in its factory on 17th January,2021, the outcome of which may result in paying heavy penalty by Kolsi (P) Ltd.
Mr. Raj Bishnoi, the partner of Bishnoi & Co., discussed the said matter with the management and it was determined to amend the financial statements for F.Y. 2020 -21.
Further, Mr. Raj inquired how the management intended to address the said matter in the financial statements to which he was told that the said matter was going to be disclosed as a "Contingent Liability for a Court case" to the foot note in the balance sheet with no additional disclosures.
The management told Mr. Raj that such disclosure was enough as he would further going a description of the said court case and its outcome in the 'Emphasis of Matter' paragraph in his amended audit report.
In the context of aforesaid case scenario, please answer the following questions:-
(a) Whether Mr. Raj on behalf of Bishnoi & Co., has properly adhered to his responsibilities in accordance with SA 560, on becoming aware of the court case filed against Kolsi (P) Ltd.?
(b) Whether the contention of management of Kolsi (P) Ltd. is valid with respect to the disclosure of the court case in the financial statements?

Answer

As per SA 560, 'Subsequent Events', the auditor has no obligation to perform any Audit procedures regarding the financial statements after the date of the auditor's report. However, when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:

(1) Discuss the matter with management and, where appropriate, those charged with governance.
(2) Determine whether the financial statements need amendment and, if so,
(3) Inquire how management intends to address the matter in the financial statements.

In the given case, on becoming aware of the court case filed against Kolsi (P) Ltd., Mr. Raj discussed the said matter with the management and it was determined to amend the financial statements. Also, he inquired how the management intended to address the said matter in the financial statements.

However, If management does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements is informed of the situation and does not amend the financial statements in circumstances where Mr. Raj (hereinafter referred as 'the auditor') believes they need to be amended, the auditor shall notify management and, those charged with governance (unless all of those charged with
governance are involved in managing the entity), that the auditor will seek to prevent future reliance on the auditor's report. If despite such notification the management or those charged with governance do not take these necessary steps, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report in accordance with SA 560.

QNO 88.000 **Subsequent Event (Salary Case)** **Old Course –(N10E, PM17, M18M)**
TITANIUM CNO -- Unique

A Co. Ltd. has not included in the Balance Sheet as on 31-03-2017 a sum of Rs 1.50 crores being amount in the arrears of salaries and wages payable to the staff for the last 2 years as a result of successful negotiations which were going on during the last 18 months and concluded on 30-04-2017. The auditor wants to sign the said Balance Sheet and give the audit report on 31-05-2017. The auditor came to know the result of the negotiations on 15-05-2017. Advise.

Answer

Part I -- Relevant Standards & Laws

- SA 560, Subsequent Events
- AS 4 "Contingencies and Events occurring after the Balance Sheet Date"
- AS 29 "Provisions, Contingent liabilities and Contingent Assets"

Part II -- Requirements of Relevant Standards & Laws

AS 4-

- **Conditions Exiting at B/S Date: - If events occurring after b/s date provide additional info relating to conditions which existed on B/s date then adjustments should be done to assets & liabilities**
  As per AS 4, adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date.

AS 29 -

- **Future Events: - Future events affecting amount required to be settled should be reflected in amount of provision**
  Similarly, as per AS 29 "Provisions, Contingent liabilities and Contingent Assets", future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

SA 560 -

- **Duty of Auditor: - Auditor should obtain S&A evidence that effect of subsequent events is taken as per applicable FRF requiring adjustments or disclosures**
  As per SA 560 "Subsequent Events", the auditor should assure that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

Part III – Case Discussion

- **Long Pending Salary Negotiations / Arrears of Salary is finalised on 30-04-17 / Audit Report to be Signed on 31-05-17 / It is a subsequent event identified before signing audit report, which needs adjustment in balance sheet**
  In the instant case, the amount of Rs1.50 crores is a material amount and it is the result of an event, which has occurred after the Balance Sheet date. The information has become known to the auditor before the date of issue of the Audit Report and Financial Statements.

Part IV -- Conclusion

- **Long Pending Salary Negotiations / Conditions exist as on balance sheet date / AS 4 & AS 29 require provisioning of Rs 1.5 Cr in current year / Request Mgt to adjust amount / If Mgt doesn't accept then auditor should qualify audit report**
  It will be observed that as a result of long pending negotiations a sum of Rs 1.50 cores representing arrears of salaries of the year 2015-16 and 2016-17 have not been included in the financial statements. It is quite clear that the obligation requires provision for outstanding expenses as per AS 4 and AS 29.
  The auditor has to perform the procedure to obtain sufficient, appropriate evidence covering the period from the date of the financial statements i.e. 31-3-2017 to the date of Auditors Report i.e.. 31-05-2017.
  So, the auditor should request the management to adjust the sum of Rs 1.50 crores by making provision for expenses. If the management does not accept the request the auditor should qualify the audit report.

Author's Note

Here Successful Negotiation doesn't mean, company doesn't have to pay. It means company has to pay only 1.5 crore because of successful negotiations.

Part 2- SA 570

QNO 90.050 | **Additional procedures and mitigating factor** | **Old Course – (M19M, N19R)**

TITANIUM CNO--SA570.040/SA570.060

AQP Limited is one of the prominent players in the chemicals industry. The company is a public company domiciled in India and listed on BSE and NSE. The Company was facing extreme liquidity constraints and there were multiple indicators that casted doubt over the company's ability to continue as a going concern.

The Company was led into insolvency proceedings by consortium of banks led by PNB and the NCLT ordered the commencement of corporate insolvency process against the Company on 31 August 2017. The company invited prospective lenders, investors and others to submit their resolution plans to the Resolution Professional (RP) latest by 1 January 2018. The RP reviewed the resolution plans and ensured conformity with Insolvency and Bankruptcy Code 2016. The compliant plans were presented to Committee on Creditors (CoC) on 2 February 2018 and the resolution plan submitted by PQR Ltd. was evaluated as highest evaluated Compliant Resolution Plan. CoC of AQP Ltd approved the Resolution Plan submitted by PQR Ltd. on 2 March 2018. The approval of NCLT was finally obtained on 4 May 2018.

PQR Ltd submitted detailed plans and commitments as part of the resolution plan including clearance of all outstanding debts which were leading to negative cash flows. Please suggest how would you deal with this situation as the auditors of AQP Ltd.

Answer

Part I -- Relevant Standards & Laws

- SA 570, Going Concern

Part II -- Requirements of Relevant Standards & Laws

- **Significant Doubt**

  If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, **the auditor shall obtain sufficient appropriate audit evidence** to determine **whether or not a material uncertainty exists** related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, **including consideration of mitigating factors.** These procedures **shall include:**

- **Additional Audit Procedures (Compulsory)**
  - **Management's Assessment if not prepared yet**

    Where management has not yet performed an assessment of the entity's ability to continue as a going concern, **requesting management to make its assessment.**

  - **Future Plan**

    Evaluating management's plans for future actions *(Introducing new products, cost cutting, sale of assets, sale of investments, issue of shares, taking new loans etc.)* in relation to its going concern assessment, whether the outcome of these plans is **likely to improve the situation.**

    *(**E.g.** Will such funds be sufficient to carry on business)* ***and whether management's plans are feasible in the circumstances.*** *(can they pull off such big changes in given short span)*

  - **Cash flow & forecast**

    Where the entity has prepared a cash flow forecast, and **analysis of the forecast is a significant factor** in considering the future outcome of events or conditions in the evaluation of management's plans for future actions:
    - Evaluating the **reliability of the underlying data generated** to prepare the forecast; and
    - Determining whether there is **adequate support for the assumptions** underlying the forecast.

  - **Events**

    Considering whether **any additional facts or information have become available** since the date on which management made its assessment.

  - **Written Representation**

Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.

- **Auditor Conclusions about Material Uncertainty and Going Concern**

  The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

- **Disclosure -**

  Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists.

  If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions.

Part III—Case Discussion

- In the instant case, the approval of the resolution plan is a significant mitigating factor to counter the going concern issues of AQP Ltd. PQR Ltd has submitted a detailed plan and commitments that has been given as part of the resolution plan which includes clearance of all outstanding debts which were leading to negative cash flows.

Part IV—Conclusion

- Therefore, it can be said that the company that the events and conditions are mitigated effectively and there is no material uncertainty in relation to the ability of the company to continue as a going concern.

Author's Note

- **Factors which compensate going concern risks, reduce it and help going concern assumption, it is called mitigating factor**

  For Example - If there is fund shortages and holding company has promised to send funds it is mitigating factor

- **How did the auditor arrive at the conclusion that material uncertainty related to going concern doesn't exist? The resolution plan is only a mitigating factor and it does not signify nonexistence of material uncertainty related to going concern?**
  - Material uncertainty means uncertain future events affecting going concern having such likelihood and magnitude that disclosure should be made.
  - Mitigating factors are one which reduces material uncertainty, so sometimes mitigating factors may nullify material uncertainty.
  - There can be circumstances where material uncertainty exists but still chances / probability of going concern in next 12 months are more and going concern is valid.
  - In this case there were matters leading to material uncertainty, but they got compensated by mitigating factors, so resultant there is no material uncertainty.

there is MU & GC is inappropriate

QNO 90.090 | **Reporting when ~~Going Concern is appropriate But MU Exists~~** | **New Course – (SM23)**

TITANIUM CNO-- SA570.060

Sun Moon Ltd. is a power generating company which uses coal as raw material for its power generating plant. The company has been allotted coal blocks in the state of Jharkhand and Odisha. During the FY 2022-23, a scam regarding allotment of coal blocks was unveiled leading to a ban on the allotment of coal blocks to various companies including Sun Moon Ltd. This happened in the month of December 2023 and as such entire power generation process of Sun Moon Ltd, came to a halt in that month. As a result of such ban, and the resultant stoppage of the production process, many key managerial personnel of the company left the company. There were delays in the of payment of wages and salaries and the banks from whom the company had taken funds for project financing also decided not to extend further finance or to fund further working capital requirements of the company.

SA 570 → 3 Steps → EC-SD over going concern
→ Additional Information
→ Conclusion & Reporting → MU → Adequate Disclosure
• Principal & Events
• MU
• Statement
→ Yes → "MUGC" • Principal Events & Condition
• MU
• Note to A/C
• Unmodified opinion
→ NO → Q/A
→ GC → Appropriate → Unmodified Report
→ Inappropriate → Adverse
→ Doubtful → Q/D

MU → under Control (less than 50%) → GC Appropriate
→ Out of control (more than 50%) → GC Inappropriate.

Further, when discussed with the management, the statutory auditor understood that the company had no action plan to mitigate such circumstances. Further, all such circumstances were not reflected the financial statements of Sun Moon Ltd. What course of action should the statutory auditor of the company consider in such situation?

Answer

SA 570 - "Going Concern" deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.

Reference

The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

Auditor Responsibility

When the use of Going Concern Basis of Accounting Is Inappropriate i.e. if the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion.

GC Adverse

Also when adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements the auditor shall:

(i) Express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705 (Revised); and

(ii) In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

MU Exists

In the present case, the following circumstances indicate the inability of Sun Moon Ltd. To continue as a going concern:

- Ban on the allotment of coal blocks
- Halt in power generation
- Key Managerial Personnel leaving the company.
- Banks decided not to extend further finance and not to fund the working capital requirements of the company.
- Non availability of sound action plan to mitigate such circumstances.

Case Discussion

Therefore, considering the above factors it is clear that the going concern basis is inappropriate for the company. Further, such circumstances are not reflected in the financial statements of the company. As such, the statutory auditor of Sun Moon Ltd. should:

1. Express an adverse opinion in accordance with SA 705 (Revised) and
2. In the Basis of Opinion paragraph of the auditor's report, the statutory auditor should state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

The auditor is also required to report as per clause (xix) of CARO 2020 that on the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor's knowledge of the Board of Directors and management plans, whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date.

Conclusion

QNO 90.600 | **Evaluating Cash flow forecast.** | **Old Course – (N23M)**

TITANIUM CNO-- SA570.040

MZE Limited is engaged in the manufacturing and export of ready-made garments. The company has lost overseas buyers to Asian competitors with lower raw materials and labour costs. As a result, MZE Limited has lost out on a significant chunk of export orders, and the trend has become more pronounced in the year 2022-23. Further, the US economic recession caused delays in the company's overseas payments, leading to the company being unable to keep its loan repayment commitments with bankers. Further, the company has not been able to pay its creditors on time. Even statutory dues payable by the company are

✓ - Reference of 570

✓ - Explain in short 3 Steps → EC-SD
→ Additional Info
→ Conclusions → MU
→ GC

✓ - Focus on MU & GC & its Treatment → In this case → MU → Disclosure
→ GC Inappropriate → Liquidation Basis

- Discuss Case

Conclusion

- Report → No Disclosure about MU → Q/A
→ GC Inappropriate → A

- CARO 2020 → clause (ix)

either not paid or being paid after a gap of 5 -6 months, leading to extra costs. Due to declining revenue, the company cannot cover its fixed costs and has begun laying off employees.

Considering all these circumstances, CA P doubts the company's ability to continue as a going concern while conducting the statutory audit for the year 2022-23. He is studying management's assessment of the company's ability to continue as a going concern by studying projected profitability statements for the next two years containing turnover, expenses and profits estimates. Comment on the above situation with specific reference to audit procedures being performed by CA P in context of relevant Standards on Auditing. ✓

Answer

The indicated events or conditions in MZE Limited may cast significant doubt on ability of company to continue as going concern. SA 570 requires that if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern through performing additional audit procedures, including consideration of mitigating factors.

In the given situation, the auditor is studying management's assessment of the company's ability to continue as going concern, including its future plan of action containing projected profitability statements for the next two years containing estimates of turnover, expenses and profits. However, as required in SA 570, auditor's procedures should focus on cash flow forecast and not on future profit projections. It is quite possible that a company may continue to carry on as a going concern so long as it can meet its liabilities. Therefore, analysing the projected profitability statements alone is insufficient to support the conclusion on the going concern assumption followed by the company.

Therefore, the auditor should require management to prepare a cash flow forecast in the given circumstances. The auditor should then analyse the cash flow forecast in the evaluation of management's future plan of action. It includes: -

(i) Evaluating the reliability of the underlying data ✓ generated to prepare the forecast and
(ii) Determining whether there is adequate support for the assumptions ✓ underlying the forecast.

Further, some major overseas payments of the company are stuck up. It is quite possible that the timing of cash inflows on account of these payments may affect the situation. The auditor would have to evaluate the reliability of data for preparation for such a forecast and its underlying assumptions. He should perform procedures to obtain evidence regarding assumptions and timing of cash inflows and outflows like any restructuring undertaken by bankers providing relief to the company, future sales and consequent cash realization in downturn conditions, willingness of creditors to provide credit in such a situation, incurring of expenditures to keep the company afloat. All these assumptions underlying such cash flow forecasts need to be challenged and examined.

- SA 570 ✓
- 3 steps ✓
- Additional Procedures ✓ → 5 points
  → Mgt Assessment ✓
  → Mgt Plans ✓
  → Cash Flow Forecast → Data ✓
    → Assumption ✓] 3 Major Documents
  → Add Info (After Dt of Preparation)] SP
  → WR
- Discuss Case
- Conclusion

QNO 90.900	Drafting Para on Material Uncertainty Over Going Concern TITANIUM CNO-- SA570.060	New Course – (SM23)

CA Sameer is the statutory auditor of Tram Fram Ltd. for the FY 2022-23. While concluding the audit CA Sameer decided to issue an unmodified opinion, though he also concluded that a material uncertainty exists with respect to the company's ability to continue as a going concern on account of a pending litigation related to labour laws. He is of the view that the company has made appropriate disclosures with respect to such pending litigation in the notes to accounts annexed to the financial statements of Tram Fram Ltd. for the FY 2022-23. Explain how CA Sameer will deal with the above situation in his auditor's report (draft the relevant portion of the auditor's report.) ✓

Answer **Material Uncertainty Related to Going Concern**

We draw attention to Note 10 in the financial statements, which indicates that the outcome of a litigation on account of labour laws is pending in case of the company during the year 31 March, 2023. As stated in Note 11, this event or condition, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

→ Principal Event & Condition
→ Material Uncertainty
→ Notes to A/C
→ Opinion → unmodified

QNO 94.000	Going Concern (Case - Inappropriate) TITANIUM CNO--SA570.060	Old Course – (M15R, N15E,PM17,N17R,N17M, SM21) New Course – (SM23)

Sun Moon Ltd. is a power generating company which uses coal as raw material for its power generating plant. The company has been allotted coal blocks in the state of Jharkhand and Odisha. During the FY 2020-21, a scam regarding allotment of coal blocks was unveiled leading to a ban on the allotment of coal blocks to various companies including Sun Moon Ltd. This happened in the month of December 2020 and as such entire power generation process of Sun Moon Ltd, came to a halt in that month. As a result of such ban, and the resultant stoppage of the production process, many key managerial personnel of the company left the company. There were delays in the of payment of wages and salaries and the banks from whom the company had taken funds for project financing also decided not to extend further finance or to fund further working capital requirements of the company.

Further, when discussed with the management, the statutory auditor understood that the company had no action plan to mitigate such circumstances. Further, all such circumstances were not reflected the financial statements of Sun Moon Ltd. What course of action should the statutory auditor of the company consider in such situation?

OR

S N Projects Limited, a manufacturing company in the Steel industry was allegedly involved in some irregularity relating to allotment of coal blocks for which a complaint was lodged against the company by the government The financial institutions stopped additional working capital finance which caused a financial crisis resulting in stoppage of production The company incurred a massive loss during the year 2015-16 There were delays in salary and other payments Certain key managerial personnel including GM Finance and certain other employees left the company The company has no sound action plan to mitigate these situations Guide the statutory auditor on how he should deal with this situation.

Answer

Part I -- Relevant Standards & Laws

- SA 570 on "Going Concern,"

Part II -- Requirements of Relevant Standards & Laws

- SA 570- "Going Concern" deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.
- The auditor's responsibilities are
  - To obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.
  - When the use of Going Concern Basis of Accounting Is Inappropriate i.e., if the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion.
  - When adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements the auditor shall:
    - Express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705 (Revised); and
    - In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

Part III – Case Discussion

- In the present case, the following circumstances indicate the inability of Sun Moon Ltd. to continue as a going concern:
  - Ban on the allotment of coal blocks.
  - Halt in power generation
  - Key Managerial Personnel leaving the company.
  - Banks decided not to extend further finance and not to fund the working capital requirements of the company.
  - Non availability of sound action plan to mitigate such circumstances.

Part IV -- Conclusion

- Therefore, considering the above factors it is clear that the going concern basis is inappropriate for the company.
- Further, such circumstances are not reflected in the financial statements of the company. As such, the statutory auditor of Sun Moon Ltd. should:
  - Express an adverse opinion in accordance with SA 705 (Revised) and

In the Basis of Opinion paragraph of the auditor's report, the statutory auditor should state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

Author's Note

In SA 570 there are questions which are not specific part of SA 570 they are case studies with "**bad business position"**

ICAI gave following answers which is a mixed bag where explain below points in short

TRADITIONAL APPROACH BY ICAI

1. Going concern meaning and disclosure in notes to accounts
2. Responsibility of management
3. Auditor Responsibility
   i. look for events & condition which create significant doubt
   ii. perform additional procedure
   iii. conclusion about material uncertainty & disclosure
   iv. conclusion about going concern & reporting
   v. finally discuss case give conclusion about reporting.

NEW APPROACH BY ICAI

In QNO 90.050 again we have a bad business story it was given in M19M & N19R where they explained about

1. Events or condition creating significant doubt
2. Additional procedures
3. MU and its disclosure
4. Case discussion
5. Conclusion

CONCLUSION

So we have traditional approach and new approach of answering bad business questions students can follow any approach both will give marks traditional approach is popular as of now and students can use it

QNO 94.010	Dealing with Material Uncertainty TITANIUM CNO--SA570.060	Old Course – (N18E, SM21, N21M,M23M) New Course – (SM23)

M/s Airlift Ltd., carrying on the business of Passenger Transportation by air is running into continuous financial losses as well as reduction in Sales due to stiff competition and frequent break down of its own aircrafts. The Financial Statements for the Year ended on 31/03/2018 are to be now finalized. The Management is quite uncertain as to its ability to continue in near future and has informed the Auditors that having seized of this matter, it had constituted a committee to study this aspect and to give suggestions for recovery, if any, from this bad, situation. Till the study is completed, according to the Management, the issue involves uncertainty as to its ability to continue its business and it informs the Auditor that the fact of uncertainty clamping on the "Going Concern" would suitably be disclosed in notes to accounts. State the reporting requirement if any, in the Independent Auditor's Report in respect of this matter.

OR

TUV Ltd. is a company engaged in the business of manufacture of spare parts. Saroj & Associates are the statutory auditors of the company for the FY 2020-21. During the course of audit, CA Saroj noticed that the company had a major customer, namely, Korean Mart from South Korea. Owing to an outbreak of war and subsequent destruction leading to government ban on import and export in South Korea, the demand from Korean Mart for the products of TUV Ltd. ended for an unforeseeable time period. When discussed with the management, CA Saroj was told that the company is in the process of identifying new customers for their products. CA Saroj understands that though the use of going concern assumption is appropriate but a material uncertainty exists with respect to the identification of new customers. This fact is duly

reflected in the financial statements of TUV Ltd. for the FY 2020-21. How should CA Saroj deal with this matter in the auditor's report for the FY 2020-21?

Answer

Part I -- Relevant Standards & Laws

- SA 570 "Going Concern"

Part II -- Requirements of Relevant Standards & Laws

- Reporting requirements in case of Uncertainty clamping on the Going Concern:
  - Situation when going concern is appropriate but MU exits
    As per SA 570 "Going Concern", if the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:
    - Disclosure of Principal Events & Conditions in financial statements
      Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
    - Warn may be unable to realise assets & pay liabilities in notes to accounts
      Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.
    - If adequate disclosure as given above – unmodified opinion & Separate section with heading 'MU related to Going Concern' in Audit Report
      If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to:
      - **Draw attention to the note in the financial statements** that discloses the matters set out above; and
      - State that these events or conditions **indicate that a material uncertainty exists** that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

Part III – Case Discussion

- In the instant case, M/s Aircraft Ltd. is running into continuous financial losses as well as reduction in sales due to stiff competition and frequent break down of its own aircrafts and management of Aircraft Ltd. is uncertain as of its ability to continue in near future. Therefore, a committee has been constituted to study this aspect and till the time study is completed management accordingly decided to suitable disclose this aspect in notes to accounts.

Part IV -- Conclusion

- Therefore, the auditor should
  - Express an unmodified opinion and
  - Include in his audit report, a separate section under the heading "Material Uncertainty Related to Going Concern" to:
    - Draw attention to the note in the financial statements that discloses the matters and
    - State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter

Author's Note

- **In this question nowhere it is mentioned that mitigating factor exists. It is only written that committee has been constituted to give suggestion for recovery, but answer has been given on the basis that going concern is appropriate and material uncertainty exists. Why Isn't going concern inappropriate?**
  - Material uncertainty means uncertain future events affecting going concern having such likelihood and magnitude that disclosure should be made.

  - Mitigating factors are one which reduces material uncertainty, so sometimes mitigating factors may nullify material uncertainty.
  - There can be circumstances where material uncertainty exists but still chances / probability of going concern in next 12 months are more and going concern is valid.

QNO 94.500 **Drafting Opinion (Material Uncertainty & No Disclosure in FST)** **Old Course -- (M22M, M23M)**

TITANIUM CNO--Unique

In the financial year 2020-21, Shreyansh Ltd. faced an extraordinary event (earthquake), which destroyed a lot of business activity of the company. These circumstances indicate material uncertainty on the company's ability to continue as going concern. Due to such event, it may not be possible for the company to realize its assets or pay off the liabilities during the regular course of its business. The financial statement and notes to the financial statements of the company do not disclose this fact. What kind of opinion should the statutory auditor of Shreyansh Ltd. issue in such circumstances and why? Also, draft the opinion and basis for opinion para for the same.

Answer

In the present case, there exists a material uncertainty that cast a significant doubt on the company's ability to continue as going concern and the same is not disclosed in the financial statements of Shreyansh Ltd.

As such, the financial statements of Shreyansh Ltd. for the FY 2020-21 are materially misstated and the effect of the misstatement is so material and pervasive on the financial statements that giving only a qualified opinion will be insufficient and therefore the statutory auditor of Shreyansh Ltd . should issue an adverse opinion.

The relevant extract of the Adverse Opinion Paragraph and Basis for Adverse Opinion paragraph is as under:

Adverse Opinion

In our opinion, because of the omission of the information mentioned in the Basis for Adverse Opinion section of our report, the accompanying financial statements do not present fairly the financial position of Shreyansh Ltd. as at March 31, 2021, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India.

Basis for Adverse Opinion

Shreyansh Ltd. has faced an extraordinary event (earthquake), which destroyed a lot of business activity of the company. Due to such event, it may not be possible for the company to realize its assets or pay off the liabilities during the regular course of its business. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statement and notes to the financial statements of the company do not disclose this fact.

QNO 94.600 **Material uncertainty Not Disclosed** **Old Course- (N22M, M23R)**

TITANIUM CNO--SA570.060

CA.K is appointed statutory auditor of SEEK INDIA LTD under Companies Act, 2013 for the first time. The company is preparing its accounts keeping in view applicable requirements of Division II of Schedule III of Companies Act, 2013. On scrutiny of financial statements of company put up for audit, it was noticed that notes to accounts show ageing of trade payables as per amended requirements of Schedule III of the Companies Act, 2013.
The ageing schedule forming part of notes is as under: -
Outstanding for following periods from due date of payment (` In crore)

Particulars	Less than 1 year	1-2 years	2-3 years	More than 3 years	Total
MSME	NIL	NIL	NIL	NIL	NIL
Others	2 ✓	4 ✓	3 ✓	1 ✓	10 ✓
Disputed dues-MSME	NIL	NIL	NIL	NIL	NIL
Disputed dues-others	NIL	NIL	NIL	NIL	NIL

Besides above, current ratio, debt-equity ratio, trade payables turnover ratio and net profit ratio disclosed in notes to accounts have slipped drastically as compared to last year and from standard norms. Most of the key financial ratios are in red. There is no other relevant information concerning above in notes to accounts.
Further, on reviewing bank statement of cash credit limit (against hypothecation of paid stocks), it was noticed that there is no debit transaction in the month of March,2022. On inquiry, he came to know that stock audit of company was conducted in the month of January,2022 and stock auditors have commented vide their report dated 25.2.2022 that company had negative drawing power due to high creditors. Accordingly, the bankers have refused further debits in cash credit account from start of March,2022. There is no information in this respect in financial statements and notes to accounts.
Discuss how CA K should deal with above for reporting in his audit report under the Companies Act, 2013

Answer

In the given situation, it is clear from the ageing schedule that company is not able to pay its creditors on time. Outstanding to creditors for a period of 1 year or more account for 80% of total dues to the creditors of the company from due date of payment. Most of key financial ratios are adverse.

Further, bankers have refused further debits in cash credit account due to negative drawing power from March 2022. Cash credit loans are repayable on demand. There is no other information or disclosure available how the company plans to run its business without bank finance.

All the above factors are indicators that a material uncertainty exists that may cast a significant doubt on the company's ability to continue as going concern. There is no express disclosure of this fact in financial statements.

Therefore, it is a situation where material uncertainty exists which has cast a significant doubt on company's ability to continue as going concern in accordance with SA 570, "Going Concern".

Keeping in view above the fact that although a material uncertainty exists casting a significant doubt on the ability of company to continue as going concern, adequate disclosure of material uncertainty is not made in financial statements, CA K shall give qualified or adverse opinion in accordance with SA-705, "Modifications to the Opinion in the Independent Auditor's Report". ✓

Part 3- SA 580

QNO 97.000	Misuse of WR TITANIUM CNO--SA580.020	Old Course – (N04E, N11R, N13R, N14E, M16M, N16M, SM17, PM17, M18M, SM21)

The auditor of Moon Pvt. Ltd. having turnover of rupees 12 crore, was not able to get the confirmation about the existence and value of certain stock. However, a certificate from the Management has been obtained regarding the existence and value of the stock at the year end. The auditor relied on the same and without any further procedure, signed the Audit Report. Is he right in his approach?

OR

M/s GBC & Co auditors of Vishu Ltd, accepted a certificate from management to certify the existence and value of machinery as per records as they were unable to get the confirmation that could prove the existence & value of the machinery State whether acceptance of certificate by GBC & Co is right approach of the auditors.

Answer

Part I -- Relevant Standards & Laws

- SA 580 "Written Representations"

Part II -- Requirements of Relevant Standards & Laws

- *WR as Audit Evidence - Audit Evidence helps in drawing conclusions / WR is also audit evidence / Similar to response of Inquiry / It is necessary audit evidence / But it doesn't affect NTE of other audit procedures / WR cannot substitute other audit evidence that the auditor could reasonable expect to be available / When we take WR for material item / obtain corroborative audit evidence from other source internal or external / Check whether representations are reasonable and consistent / WR should come from well informed individuals*

  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 for other sources inside or outside the entity.** He should evaluate whether such **representations are reasonable and consistent with other evidence** 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.**

- *No S&A Evidence: - Not able to obtain S&A evidence / Evidence which was reasonable expected / regarding material items in FST / it will be limitation on scope / even though there is WR*

  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 management on the matter.**

- *Physical Verification - Primary responsibility of the management / Auditor should examine verification programme and try to attend physical verification / S&A evidence for existence and valuation of stock*

  The physical verification of stock is the **primary responsibility of the management.** The auditor, however, is required to **examine the verification programme adopted by the management.** He must satisfy himself about the **existence and valuation of stock**.

Part III – Case Discussion

- *Not able to verify existence & value of certain stock / No physical verification/ certificate from management*

  In the case of Moon Pvt. Ltd., **the auditor has not been able to verify the existence and value** of certain stock despite the verification procedure followed in routine audit. He **accepted the certificate given to him by the management without making any further enquiry.**

Part IV -- Conclusion

- *Auditor's stand is not acceptable and not as per SA 580*

  Therefore, the approach adopted by the auditor is not tenable.

QNO 97.100	Date of and period covered by written representation. TITANIUM CNO--SA580.040/SA580.060	Old Course – (M19R, M21M) New Course – (SM23)

PRSH & Co is the statutory auditor of Make My Journey Ltd. The company is in the business of tours and travels. Annual turnover of the company is INR 2000 crores and profits are INR 190 crores. During the planning meeting of the management and the auditors, it was discussed that the management needs to provide written representation letter to the auditors for the preparation of the financial statements and for the completeness of the information provided to the auditor. At the time of closure of the audit, there has been some confusion about the requirements of the written representation letter. Management argued that representation need not be written, it can also be verbal which has been provided to the audit team during the course of their audit. Auditors have completed their documentation and hence in a way, representation based on verbal discussions with the auditors has also got documented. Auditors explained that this is mandatory to obtain written representation in accordance with the requirements of SA 580. However, still some confusion remains regarding the date and period covered by the written representation. You are required to advise about the date of and period covered by written representation in view of SA 580

Answer

1
- *Before Audit Report & Near to Signing:*

  As per SA 580, "Written Representations", as written representations are necessary audit evidence, the auditor's opinion cannot be expressed, and the **auditor's report cannot be dated, before the date of the written representations.** Furthermore, because the auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to or disclosure in the financial statements, **the written representations are dated as near as practicable to**, but not after, the date of the auditor's report on the financial statements.

- *Updation of Written Representation*

  In some circumstances it may be appropriate for the auditor to obtain a written representation about a specific assertion in the financial statements during the course of the audit. Where this is the case, it may be necessary to request an updated written representation.

2
- *All Periods*

  The written representations are for **all periods referred to in the auditor's report** because management needs to reaffirm that the written representations it previously made with respect to the prior periods remain appropriate. The auditor and management may agree to a form of written representation that updates written representations relating to the prior periods by addressing whether there are any changes to such written representations and, if so, what they are.

- *Change of Management*

  Situations may arise where **current management were not present** during all periods referred to in the auditor's report. Such persons may assert that they are not in a position to provide some or all of the written representations because they were not in place during the period. This fact, however, does not diminish such persons' responsibilities for the financial statements as a whole. Accordingly, the requirement for the auditor to request from them written representations that cover the whole of the relevant period(s) still applies.

Author's Note
A short summary of the above answer is provided below.

First Para Explains — WR should be taken before signing (dating) audit report and as it cover subsequent events till date of signing audit report it should be close to date of signing

Second Para Explains — WR are generally taken at the end of the year but if any WR is taken during the year, auditor can ask for updated WR at the end of year if any information has changed

Third Para Explains — If you giving audit report for multiple years, like in prospectus we give report for 5 years then WR should be taken for multiple years

Fourth Para Explains — When we take WR for past years, even if management has changed take it again from current management because they are overall responsible for financial statements

So it focuses on 4 points

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1. Year end WR
2. During the year WR
3. WR for multiple years
4. WR even when management has changed

QNO 97.200	Significant Gap in WR & Financial Statements TITANIUM CNO-- SA580.060	New Course – (SM23)

Following is a written representation given by RES Limited to its statutory auditors i.e. M/s CTK & Associates for audit of financial year 2022-23. The audit was completed and report dated 31.7.23 was issued.

Point out, if there is any, anomaly in written representation reproduced below.

15th April 2023

Gap of 3.5 months

To

CTK & Associates

Chartered Accountants

Dear Sir,

This representation letter is provided in connection with your audit of the financial statements of RES Limited for the year ended March 31, 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the applicable accounting standards in India.

We confirm that (to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves):

Financial Statements

- **We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated 17th August 2022 for the preparation of the financial statements in accordance with financial reporting Standards, in particular, the financial statements give a true and fair view in accordance with the applicable accounting standards in India.**
- **Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.**
- **Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of applicable accounting standards in India.(SA 550)**
- **All events subsequent to the date of the financial statements and for which applicable accounting standards in India require adjustment or disclosure have been adjusted or disclosed. (SA 560)**
- **The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter. (SA 450)**

Information provided.

- **We have provided you with: -**
  - **Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;**
  - **Additional information that you have requested from us for the purpose of the audit; and**
  - **Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.**

- **All transactions have been recorded in the accounting records and are reflected in the financial statements.**

- **We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.**

- **We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves: -**
    - **Management;**
    - **Employees who have significant roles in internal control; or**
    - **Others where the fraud could have a material effect on the financial statements.**

- **We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.**

- **We have disclosed to you all known instances of non-compliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.**

- **We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. (SA 550)**

Chief Financial Officer

Answer

The date of the written representations shall be as near as practicable to, but not after, the date of the auditor's report on the financial statements. As the auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to or disclosure in the financial statements, the written representations are dated as near as practicable to, but not after, the date of the auditor's report on the financial statements.

concept

In the given situation, written representation is dated 15th April 2023. The audit report is dated 31st July 2023. There is a considerable lag between date of written representations and date of audit report.

It could signify that all subsequent events after date of financial statements requiring adjustments or disclosure may not have been adjusted or disclosed in the financial statements by management.

case

As audit report is dated 31St July 2023, it reflects that auditor has considered subsequent events occurring between date of financial statements and date of auditor's report. However, written representations pertain to 15th April 2023.

Conclusion

QNO 98.000	**WR (Refusal)** **TITANIUM CNO--SA580.060**	**Old Course – (M10E, N13R, PM17)**
	In the course of audit of ABC Ltd its management refuses to provide written representations As an auditor what is your duty?	

Answer

Part I -- Relevant Standards & Laws

- SA 580 "Written Representations"

Part II -- Requirements of Relevant Standards & Laws

- **Duty of Auditor: - Discuss with Mgt / Re-evaluate integrity of Mgt / Evaluate effect on reliability of their representations / Take Appropriate actions / Effect on the opinion / Auditor may Disclaim as per SA 580 if no WR for any area or matter provided.**

Duty of an Auditor if management refuses to provide written representations: As per SA 580 "Written Representations", if the management does not provide one or more of the requested written representations, the auditor shall:

- Discuss the matter with management,
- Re-evaluate the Integrity of the management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general, and
- Take appropriate actions, including determining the possible effect on the opinion in the auditor's report.
- The auditor should disclaim an opinion on the financial statements if management does not provide written representations in accordance with SA 705 "Modifications to the Opinion in the Independent Auditor's Report".