1 - SUBSEQUENT EVENTS

Events Occurring b/w → The date of F.S. → The date of Auditor's Report
+
Facts that became known to Auditor → After the date of Auditor's Report

FS → May be affected → certain EVENTS → Occur AFTER → Date of FS

certain EVENTS → Those provide Evidence → of conditions

- Existed @ → the date of FS
- Arose AFTER → the date of FS

EXAMPLES

1. Declaration of Insolvency → of a Major Debtor → Evidence of Recoverability on Date of FS.
2. Settling Legal Claim → Reduced Amount → Provision already made on FS

1. Issue of NEW Sh. capital
2. Planned merger
3. Destruction of significant inventory

1.2 - Objectives of auditor in accordance with SA 560

Obtain

Respond

Obtain
↓
Suff. + Appro. A.E.
↓
EVENTS occuring b/w → Date of FS
→ Date of Auditor's Report
↓
Require → Adj. / Disclosure

Respond
↓
Appro. to FACTS
↓
Became known to Auditor
↓
AFTER the date of Audit Report
↓
Had they been known to the Auditor
↓
At that date
↓
May have caused to amend Audit Report

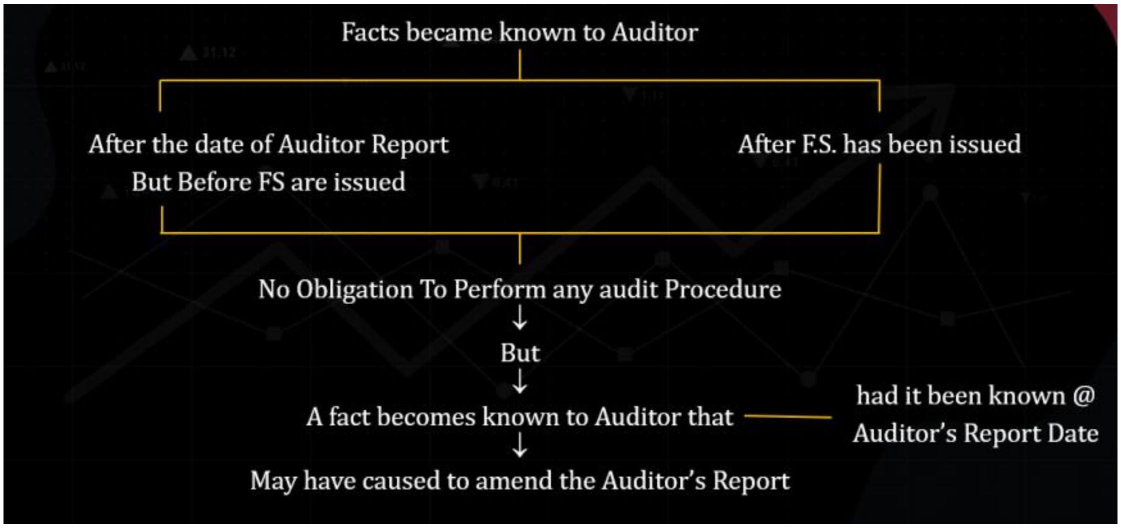
1.3 - Audit procedures relating to events occurring between the date of the financial statements and the date of the auditor's report

→ Audit procedure → No Additional Audit Procedures
↓
If previously applied Audit procedures provided satisfactory conclusion

→ Audit Procedure
- Obtain an understanding of procedures
- Inquiring Mgt. / TCWG
- Reading Minutes of Meeting
- Reading Interim F.S.
  - Owners
  - Mgt.
  - TCWG

→ Request → Mgt. / TCWG > provide W.R. → All events AFTER
↓
Date of FS
↓
Have been → Adjusted / Disclosed

1.4 - Facts which become known to the auditor after the date of the auditor's report but before the date the financial statements are issued



↓

If Mgt. amends the FS

↓

Auditor shall

Carry

↓

Necessary Audit Procedures → To the date of New Audit Report

\+

Provide $\boxed{\text{New Audit Report}}$

↓

shall not be dated EARLIER

↓

Than the date of Approval of Amended F.S.

* When Law / Regulation → Does NOT prohibit → Mgt.
  - ↓ Restricting the Amendment of F.S. to subsequent events
  - ↓ Auditor is permitted to Restrict the Audit Procedure
  - ↓ shall
    - Amend the Auditor's Report
      - ↓ Include an Additional Date
        - ↓ Restricted to that amendment
      - ↓ Indicates → Audit Procedures are RESTRICTED
        - ↓ To that EVENT
    - Provide
      - New / Amended ↳ Audit Report
      - ↓ Include a St.
        - EoM / OM ↳ para
        - ↓ conveys
        - ↓ Audit Procedures are RESTRICTED
        - ↓ To that EVENT

* Mgt. → May not be Required → To amend FS
  - Law
  - Regulation
  - F.R.F.

→ Auditor also → need NOT provide

→ Auditor also → need NOT provide → Amended / New → Audit Report

* Where
- → Mgt. → Does NOT Amend FS
- → Auditor → believes → FS needed Amendment

↓

Audit Report

- Has NOT been provided
  ↓
  To the Entity
  ↓
  Modify the Opinion (SA 705)
  ↓
  the provide Audit Report
- Has been provided
  ↓
  To the Entity
  ↓
  Notify → Mgt. / TCWG
  ↓
  NOT to issue FS to 3rd parties
  ↓
  Before amendment
  ↓
  Still FS issued w/o Amendment
  ↓
  Take Appro. Action
  ↓
  To seek to prevent Reliance on Audit Report

2. MEANING OF GOING CONCERN AND ITS SIGNIFICANCE

F.S. are prepared → on assumption that

Entity is a Going Concern

Will continue its operations for a foreseeable future

UNLESS

↓

Mgt

intends to → Liquidate the Entity / Cease operations

has → No realistic alternative

→ When Enterprise → NOT VIEWED → as Going Concern

↓

Fs are prepared → Liquidation Basis

2.1 - SA 570 Going Concern → Auditor's Responsibility in → Audit / Auditor's Report

2.2 - Responsibility for assessment of the entity's ability to continue as a going concern

Preparation of FS → By Mgt. → Assess Entity's ability

↓

To continue as Going concern

↓

EVEN IF F.R.F. DO NOT INCLUDE AN EXPLICIT REQ.

→ Factors Relevant to Mgt. Judgement

Degree of ...

size / complexity of the entity

Info available at the time of

Ankit Mundra Ankit Mundra

Degree of uncertainity associated

size / complexity of the entity

Info available at the time of

Judgement

subsequent event

Ankit Mundra Ankit Mundra Ankit Mundra

Ankit Mundra Ankit Mundra Ankit Mundra

2.3 - Responsibilities of the auditor & 2.4 - Objectives of auditor in accordance with SA 570

- To obtain
  - Suff. + Appro. A.E.
  - ↓
  - Mgt. use of Going Concern
- To Conclude
  - ↓
  - Based on A.E. obtained
  - ↓
  - Material uncertainity?
- To Report
  - ↓
  - as per SA

→ Absence of Material Uncertainity ≠ Guarantee → Entity's ability to continue as Going Concern

2.5 - Risk assessment procedures and related activities

When performing R.A.P → Auditor shall

↓

Stage 1

- Consider
  - ↓
  - whether Events / Conditions Exists
  - ↓
  - That may cast significant doubt
  - ↓
  - Entity's ability to continue as G.C.
- Determine
  - ↓
  - Mgt. has performed
  - ↓
  - preliminary assessment
    - YES
      - Disscuss assessment with Mgt.
      - Determine Mgt. identified
      - Mgt. plans to address
    - NO
      - Discuss
        - ↓
        - Basis for intended
      - Inquire
        - Events
        - Conditions

with Mgt. identified to address intended use of G.C. Events conditions

Events conditions

→ Events & Conditions → that may cast significant Doubt on Entity's ability to continue as a going concern

Eg.:

Financial	Operating	Others
(1) Short term loans against F.A	(1) Loss of Major F.A.	(1) Assets not enough to cover the claims of Litigation
(2) Entity not able to service its interest	(2) Strikes in the Entity	

2.6 - Evaluating management's assessment

1) Auditor ⟶ Evaluate ⟶ Mgt. assessment of G.C.

↓

Key part of Auditor's consideration of Mgt.'s use of G.C.

2) Not Auditor's Responsibility ⟶ Rectify ⟶ Lack of analysis

↓

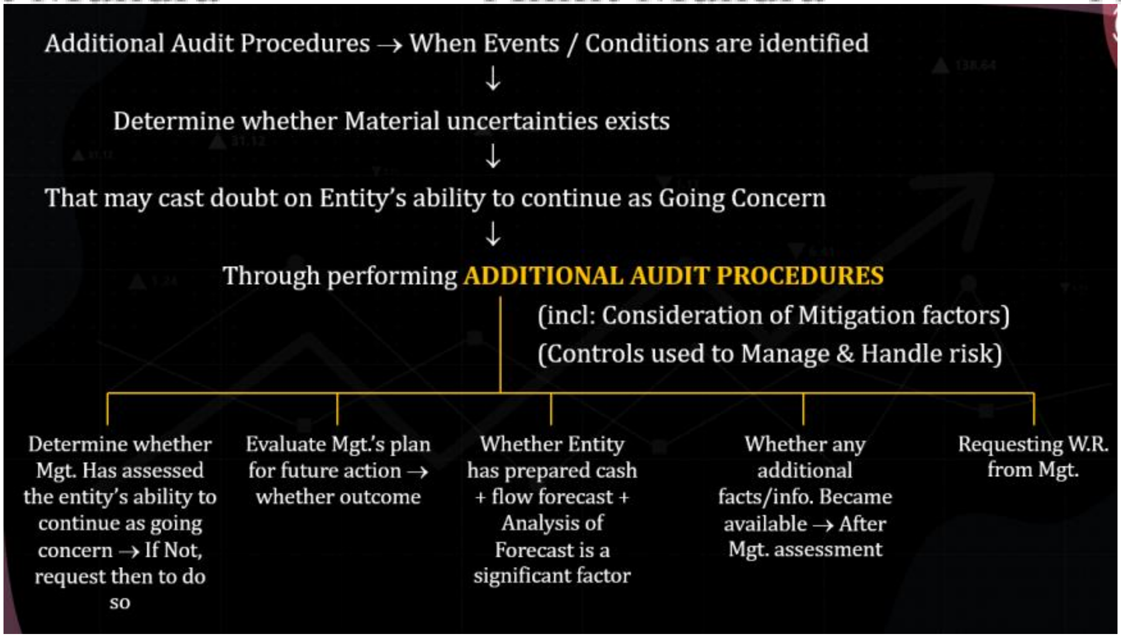
By Mgt.

3) Auditor ⟶ cover ⟶ same period ⟶ used by Mgt.

↓

ATLEAST 12 months

2.7 - Additional audit procedures when events or conditions are identified


Additional Audit Procedures → When Events / Conditions are identified
Determine whether Material uncertainties exists
That may cast doubt on Entity's ability to continue as Going Concern
Through performing ADDITIONAL AUDIT PROCEDURES
(incl: Consideration of Mitigation factors)
(Controls used to Manage & Handle risk)
Determine whether Mgt. Has assessed the entity's ability to continue as going concern → If Not, request then to do so
Evaluate Mgt.'s plan for future action → whether outcome
Whether Entity has prepared cash + flow forecast + Analysis of Forecast is a significant factor
Whether any additional facts/info. Became available → After Mgt. assessment
Requesting W.R. from Mgt.

2.8 - Auditor's conclusions

If Material Uncertainity EXISTS → Appro. DISCLOSURE
- Nature
- Implication

2.9 Adequacy of disclosures when **events or conditions** have been **identified** and a material **uncertainty exists**

Auditor concludes
- Mgt. use of G.C → Appro.
- Material Uncertainity → Exists

↓

Determine → F.S.

Adequately disclose
- principal
  - Events
  - Conditions
- Mgt.'s plan to deal

Disclose clearly
- Material Uncertainity
- May be unable to
  - Realise Assets
  - Discharge Liabilities

2.10 Adequacy of disclosures when **events or conditions** have been **identified** but **NO material uncertainty exists**

Auditor → Evaluate → F.S. provide → Adequate Disclosure
- Events
- Conditions

2.11 - Implications for the auditor's report

If use of G.C. basis of Accounting
- Inappropriate → F.S. → prepared → G.C. Basis
- Appropriate + Material Uncertainity EXISTS → Adequate Disclosure
- Mgt unwilling
  - Make
  - Extend
  - Assessment

  → QUALIFIED / DISCLAIMER OF OPINION

F.S. → prepared → G.C. Basis

QUALIFIED / DISCLAIMER OF OPINION

Auditor's → Inappropriate opinion

↓

ADVERSE OPINION

Made in F.S.

↓

UNMODIFIED OPINION

\+

Separate section

↓

Heading: "Material uncertainity Relating to G.C."

- Draw attention to the note in FS.
- State → Events / Conditions → Indicate Material Uncertainity

Auditor's Opinion is NOT MODIFIED

Not Made in F.S.

↓

QUALIFIED / ADVERSE OPINION (as per SA 705)

\+

"Basis for Qualified / Adverse Opinion" section

↓

Material Uncertainity EXISTS

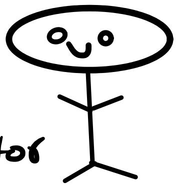
\+

FS not adequately disclose this matter

3. - EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT

Before → Forming an Opinion on F.S.

↓



Auditor → (I) Considers Materiality

(II) Evaluates Effects < Identified / Uncorrected > Misst.

3.1 - SA 450 Evaluation of Misstatements Identified during the Audit

\+ Uncorrected Misst.

3.2 - Objectives of auditor in accordance with SA 450

↓

Evaluate → Effect < Identified / Uncorrected > Misst.

3.3 - Accumulation of misstatements identified during the audit

Auditor → Accumulate Misst. → Identified during an Audit

↓

Except → Trivial (Immaterial) Misst.

3.4 - Consideration of identified misstatements as the audit progresses

Auditor → Determine → Need to REVISE < O.A.S. / Audit Plan

↓

If

- Nature of Identified Misst.
- Circumstances of their occurance

> Indicate

↓

OTHER MISST. MAY EXIST

- Accumulated Misst.

↓

Approaches

OTHER MISST. MAY EXIST
+
When Accumulated → COULD BE MATERIAL

Approaches
↓
MATERIALITY
(DM)

* Auditor May Request Mgt. to

Examine → CoT / A/c Bal. / Disclosure
↓
To understand cause of Misst.
↑
Identified by Auditor

Perform procedures
↓
To determine
↓
Amount of Actual Misst.

→ If Mgt. ACCEPTS → Auditor's Request → Examine → CoT / A/c Bal. / Disclosure
+
CORRECTED Misst.

↓

Auditor → perform → Additional Audit Procedures
↓
To determine
↓
Misst. REMAIN ?

3.5 - Communication and correction of misstatements

Timely Basis
↑
Auditor → communicate → ALL ACCUMULATED MISST.
+
Request to Correct

Auditor → communicate → ALL ACCUMULATED MISST.
\+
Request to correct
↓
Appro. level of Mgt. → unless prohibited → Law / Regulation

If Mgt. → REFUSES
↓
Auditor shall

- Obtain understanding
  ↓
  Mgt's Reason for refusal
- Evaluate whether F.S. as a whole are Free from MM

3.6 - Evaluating the effect of uncorrected misstatements

Step 1: Reassess Materiality

Step 2: Evaluate → Effect of Uncorrected Misst.

Evaluate ↓ consider

- Size / Nature of Misst.
  - CoT
  - A/c Bal.
  - Disclosure
  - F.S. as a whole
  - particular circumstances
- Effect of uncorrected misst.
  - ↓ Related to prior pd.

3.7 - Communication with those charged with governance

Auditor → communicate → TCWG

communicate ↑ unless prohibited (Law, Regulations)

- uncorrected misst.
  - current pd.
  - prior pd.
- Effects
  - Individually
  - Aggregate
  - ↓ on Audit Report

3.8 - Written Representation from management regarding effects of uncorrected statements

Auditor → Request → W.R. → whether Misst. ↓ Immaterial?

Request → summary

Mgt. TCWG

summary

Immaterial ?

3.9 - Documentation regarding misstatements identified during audit

Amount below which → Trivial

Misst. — Accumulated, corrected

Auditor's Conclusion

4. - WRITTEN REPRESENTATIONS

SA 580 Written Representation

Written statement by Mgt → Provided to Auditor → To confirm

- DOES NOT INCLUDE
  - FS
  - Assertions
  - Supporting Books & Records
- To confirm
  - Certain Matters
  - Support other Audit Matters

4.1 - Written representations as audit evidence

W.R. as A.E.

W.R. = A.E. → But NOT Suff. + Appro. A.E. → on their own

W.R. → Does Not Affect < Nature (N) / Extent (E) > of other A.E.

If Mgt < Modifies / Does not provide > W.R. → It may alert Auditor

↓

one more > significant issues may exist

4.2 - SA 580 - Written Representations

Auditor's Responsibility → To obtain WR. < Mgt. / TCWG

4.3 - Objectives of auditor in accordance with SA 580

Auditor's objectives Regarding W.R.

- To obtain W.R.
  - ↓ fulfilled responsibility ↓ preparation of F.S.
- To support other A.E.
  - ↓ Relevant to: F.S. / specific assertions
- To Respond Appropriately
  - ↓ to W.R.: Mgt. / TCWG

4.4 - From whom Written representations are requested by auditor?

Auditor → obtain W.R. → Mgt. → Appro. Responsibilities

F.S.

Matters

4.5 - Written representations about $\boxed{\text{management's responsibilities}}$

- preparation of F.S. ↓ App. F.R.F. + Fair presentation
- Info. provided + Access as agreed
- + Completeness of transaction

→ Individuals → specialised knowledge → Actuary, Staff Engineers, Internal Counsel

May include Qualifying Language → That Representations (WR) are made

↓

TO THE BEST OF ITS KNOWLEDGE & BELIEFS

4.6 - Why Written representations about management responsibilities are necessary?

A.E. obtained → Mgt. has fulfilled → Responsibilities

- preparation of F.S.
- Info. provided + completeness of transaction

A.E. obtained ↓ NOT SUFFICIENT ↓ without confirmation ↓ from Mgt. → That it BELIEVES ↓ It has fulfilled those Responsibilities

* This is particularly appropriate when

* This is particularly appropriate when

- Those who Signed the Terms of Audit Engagement ↓ On behalf of the Entity ↓ No Longer Have The Relevant Responsibilities
- Terms of Audit Engagement ↓ were prepared in the previous F.Y.
- Indication ↓ that Mgt ↓ misunderstood its Responsibilities
- Indication ↓ that Mgt ↓ misunderstood its Responsibilities

4.8 - Other Written representations

- Selection + Application ↳ A/c Policies ↵
- Other Matters
  - Plans / Intentions ↓ That may affect → carrying value / classification ↳ Assets / Liabilities ↵
  - Actual / Contingent ↓ liabilities
  - Title / Control ↓ Assets
  - Non compliance ↓ Law / Regulation

4.9 - Additional Written representations about information provided to the auditor

↓

That it has communicated → To Auditor

↓

ALL DEFICIENCIES IN I.C.

↓

of which Mgt. is aware

4.10 - Written representations about specific assertions

when obtaining A.E. → about → Evaluating / Judgements

↓

when obtaining A.E. → about → Judgements / Intentions

↓

Auditor may consider

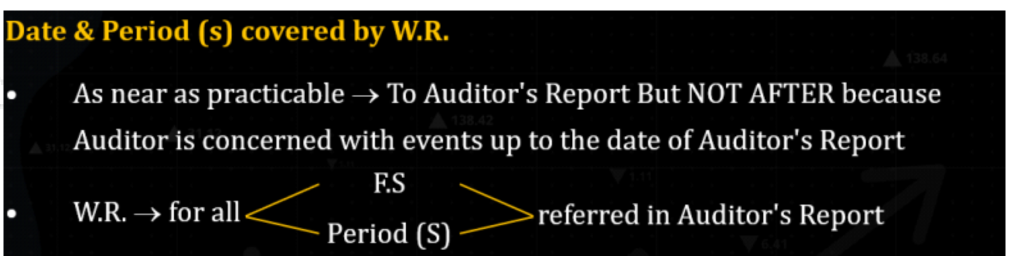
Entity's PAST HISTORY ↓ in carrying out stated intentions

Entity's REASONS ↓ particular course of action

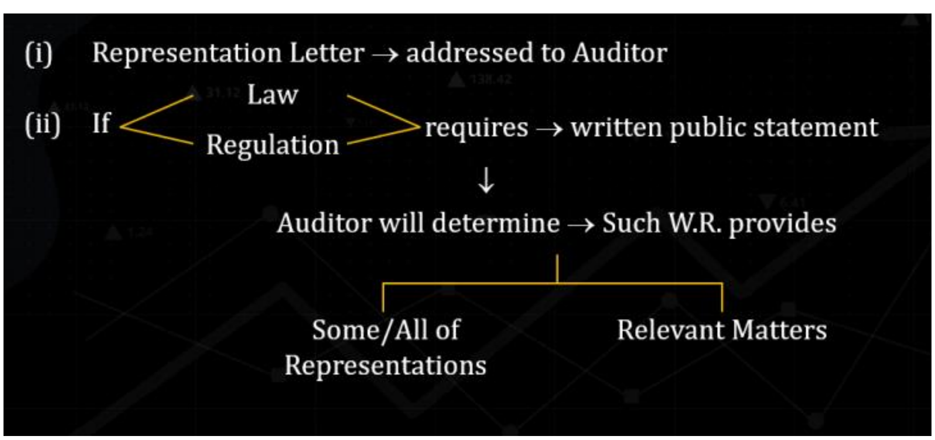
Entity's ABILITY ↓ to pursue specific course of action

Existence | Lack of OTHER INFO. ↓ that may be inconsistent with Mgt. → Judgement / Intent

4.11 - Date of and Period(s) covered by Written Representations



4.12 - Form of Written representations



4.13 - Doubt as to the reliability of Written representations

If Auditor has concerns → competency / Integrity / Ethical / Values / diligence / commitment

↓

to determine → Effect of such concerns

\+

If W.R. → Inconsistent → Other A.E.

↓

perform Audit Procedures to Resolve

\+

If matter remains → Unresolved → determine the effect

\+

If Auditor, Concludes → W.R. → Not Reliable

↓

Take appropriate action

4.14 - Requested Written representations not provided

(1) Discuss matter with Mgt.

(2) Re-evaluate the Integrity of Mgt.

\+

Evaluate the reliability of W.R.

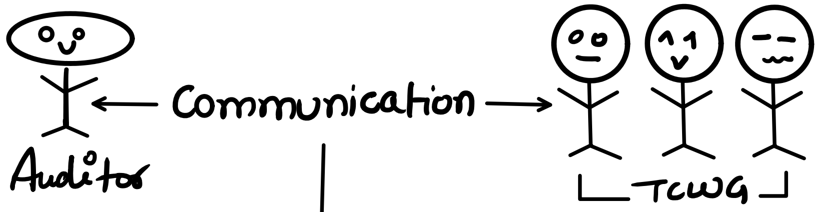
(3) Take appropriate action

4.15 - Disclaimer of opinion in case of non-reliability of Written Representations about management's responsibilities or failure to provide such Written Representations

Auditor → Disclaim an Opinion → If

- Suff. Doubt → Integrity of Mgt.
  ↓
  W.R. → NOT RELIABLE
- Mgt. → Does not provide
  ↓
  W.R.

5. SIGNIFICANCE OF COMMUNICATION WITH TCWG



Auditor ← Communication → TCWG

↓

Important in Assisting

- Understanding → Matters → Related to Audit
- Obtaining → Info. → Relevant to Audit
- fulfilling → TCWG Responsibilities

* TCWG < person(s) / Org.(s) [Corporate Trustee] > Responsibility → Overseeing

- Strategic Direction
- Accounting obligations
- F.R. process

of Entity

5.3 - Objectives of auditor in accordance with SA 260

- Communicate → TCWG → Responsibilities of Auditor
- Obtain → TCWG → Relevant Info.
- Provide → TCWG → Timely observations
- Promote → Effective communication

5.5 - Matters to be communicated by auditor

- Auditor's Responsibilities
- Planned: Scope + Timing
- Significant Findings
  - Qualitative
  - Difficulties
  - Matters
  - Form +
  - Other ...

- Responsibilities
  - forming + Expressing → opinion
  - Audit → does not relieve → Mgt. / TCWG
- Scope Timing + communication of significant Risks
- Qualitative Aspects
  - A/c practice
  - A/c Policies
  - A/c Estimates
  - FS Disclosures
- Difficulties
- Matters + W.R. → unless TCWG manages the entity
- Form + Content → Audit Report
- Other Matters

5.6 - Communication of auditor's independence in case of listed entities

- Statement
  - Engagement Team
  - Others in Firm
  - Firm
  - Network Firms

  complied with → Relevant Ethical Req.
- Relationships + Other Matters
- Related Safeguards

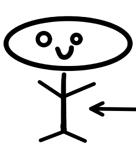
5.7 - The Communication process

Timely Basis

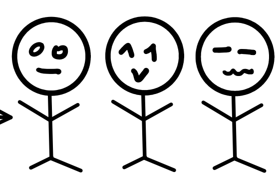
Auditor ⟶ communicate → Form / Timing / Expected General Content / Independence (only Listed Entities)

writing

5.8 - Adequacy of the communication process



Auditor ⟵ Communication ⟶



TCWG

Adequate ?

If not ⟶ Evaluate the Effect + Take action

- Auditor's assessment of RoMM
- Ability to obtain Suff. + Appro. A.E.

5.9 - Documentation

5.9 - Documentation

Include in Documentation
↑
Where → Matters communicated

- Orally
  - When?
  - To whom?
- written
  - ↓ Retain a copy

6. - WHY COMMUNICATION OF SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL IS NECESSARY?

↓ In writing

6.1 Scope of SA 265 - Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

Auditor's Responsibility → communicate → TCWG

communicate ↓ Deficiencies in I.C.

Auditor's Responsibility ↓ Required ↓

1) Obtain understanding → I.C.

↓ Stage 1 → Identifying & Assessing RoMM

↓ To design Audit Procedures

Auditor considers I.C. ⟷ To design Audit Procedures

↕ Not for expressing an opinion → on Effectiveness of I.C.

6.2 - Objective of auditor in accordance with SA 265

↓ Communicate → TCWG → Deficiencies in I.C.

- Identified during audit
- Sufficiently Important

6.3 - Meaning of "Deficiency in internal control" and "significant deficiency in internal control"

Deficiency in I.C.
↓
Exists when

Control → MISSING

Designed (D) | Implemented (I) | Operated (O)

Unable to

Prevent (P) | Detect (D) | Correct (C)

MM
↓
Timely Basis

Significant Deficiency in I.C.
↓
Deficiency / combination > in I.C.
↓
Auditor's Prof. Judgement
↓
Suff. Important to merit
↓
Attention of TCWG

* Depends upon

- MM actually occured
- Likelyhood of occurance
- potential magnitude

* Examples : Deficiency / combination > constitutes → Sig. Deficiency

Matters	Indicators
1) Likelyhood → in future	1) Evidence of Deficiency → Control Env.; Mgt. Fraud; Mgt. failure → Remidial Action
2) Susceptibility < Loss / Fraud	2) Absence of R.A.P.
3) subjectivity / complexity > Estimating amounts	
4) FS → amounts → exposed	

4) FS → amounts → exposed

5) Volume of Transaction

- CoT
- A/c Bal.
- Disclosure

Exposed to Deficiency

6) Cause
Frequency
> Exceptions

2) Absence of R.A.P.

3) Ineffective R.A.P.

4) Misst. detected → Not [P, D, C] > I.C.
↓
by Audit Procedures

* Importance of Controls → F.R. Process

- General Monitoring
- Controls over
  - P & D → F/E
  - Selection + Application → A/c Policies
  - Sig. Transaction
    - R.P.
    - Outside → Normal Course of Business
  - Period End F.R. process

6.4 - Determination of significant deficiencies in internal control

Auditor shall determine → Identified [one, more] > Sig. Deficiencies in I.C.
↓
Basis of Audit Work performed

6.5 - Communication of significant deficiencies in internal control to those charged with governance

Timely Basis
↑

Auditor → Communicate → Sig. Deficiencies in I.C.
- Communicate → Timely Basis
- Communicate → in writing
- Sig. Deficiencies in I.C. → Appro. level of Mgt.
  - Deficiencies
    - Communicated → TCWG
    - Intends to communicate → TCWG
    - TCWG → unless inappro. to communicate directly to Mgt.
  - Other Deficiencies → NOT BEEN COMMUNICATED → To Mgt. → by others

* Auditor → Include
- Description → of Deficiencies
- Explanation → potential Effect
- Suff. Info. → To understand context

* Auditor → Explain
- purpose of Audit → To express an opinion on F.S.
- Audit Included → consideration of I.C. → To design Audit Procedure → Not for expressing an opinion
- Matters Reported → Limited to deficiency

Not for expressing
an opinion