

SA 505 – External Confirmations
SA 560 – Subsequent Event
SA 570 – Going Concern

Refresher Course on Practical issues on Standards on Auditing under COVID-19
WIRC of ICAI
June 7, 2020

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SA 505 (Revised) External Confirmations

June 7, 2020



Overview

➤ Introduction

- Scope
- External Confirmation Procedures to Obtain AE
- Objective
- Definitions
- External Confirmation Procedures
- refusal to allow auditor to send confirmation request
- Results
- Negative confirmations
- Evaluating audit evidence



Scope

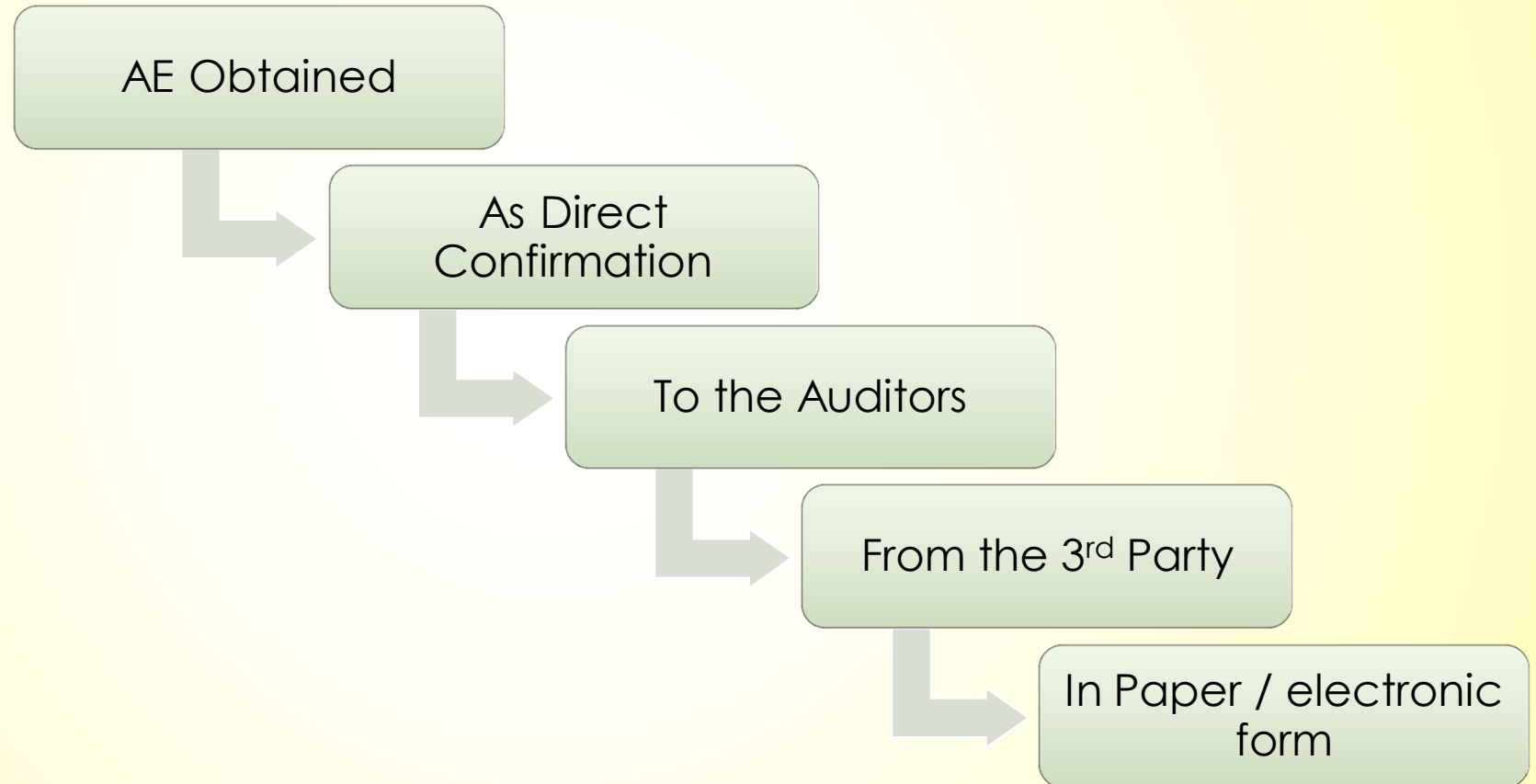


- **Scope of SA**

- Auditor's use of external confirmation procedures (ECP).
- To obtain Audit Evidence (AE)

- **Does not cover inquiries relating to litigations & claims.**

External Confirmation

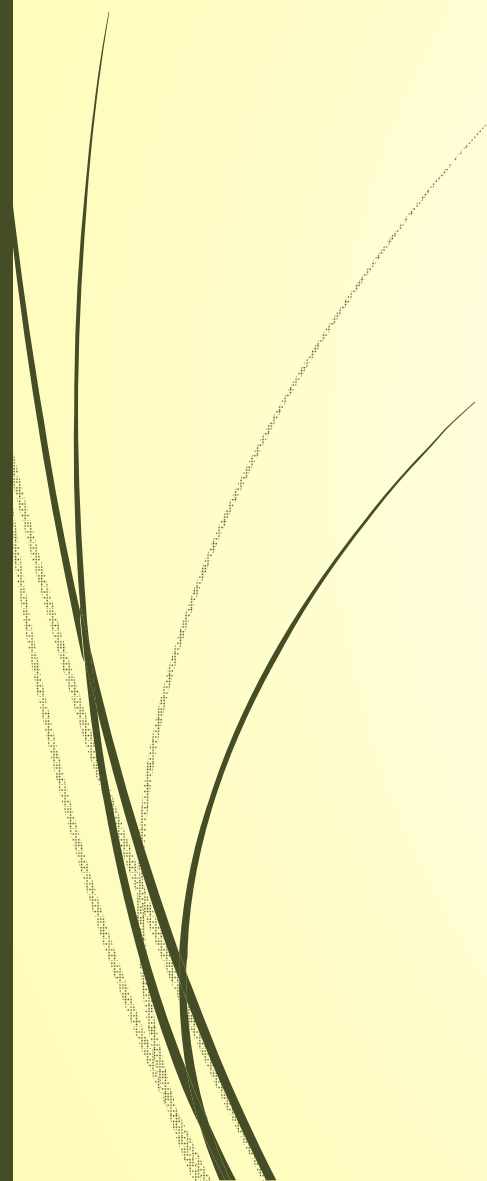


Type of Confirmations

Particulars	Positive Confirmation	Negative Confirmation
Request to	Confirming party (CP)	Confirming party (CP)
Respond to	Directly to auditor	Directly to auditor
Expectation as to CP's response	ALWAYS	ONLY IF
What to respond	Whether CP agrees/ disagrees with info in request/ provide requested info	CP disagrees with info in request



Procedure

- 
- 1 Determining the info to be requested or confirmed
 - 2 Selecting appropriate confirming parties
 - 3 Designing Confirmation request
 - 4 Sending Request including follow ups



Outcome



- **Non – response**

- In case of PCR:
- Failure of PCR to respond/ fully respond.

OR

- Confirmation request returned undelivered.

- **Exception**

- A response that indicates difference between info requested to be confirmed or contained in entity' records.

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- Info provided by Confirming Party.

Designing Confirmation Requests

- Includes determining that:
 - Requests are properly addressed.
 - Contain return info for responses to be sent directly to auditor.
 - Factors to consider in designing:
 - Assertion being addressed.
 - Specific identified Risk.
 - Layout & presentation of request.
 - Prior experience.
 - Method of communication.
 - Mgt authorisation/ encouragement to CPs to respond to auditor.
 - Ability of CP to provide/ confirm requested info.

Management Refusal

- If Management refused to send proposal


Inquire – reason for the refusal & seek evidence to verify the same

Evaluate – implication of refusal on Risk assessment and audit procedures

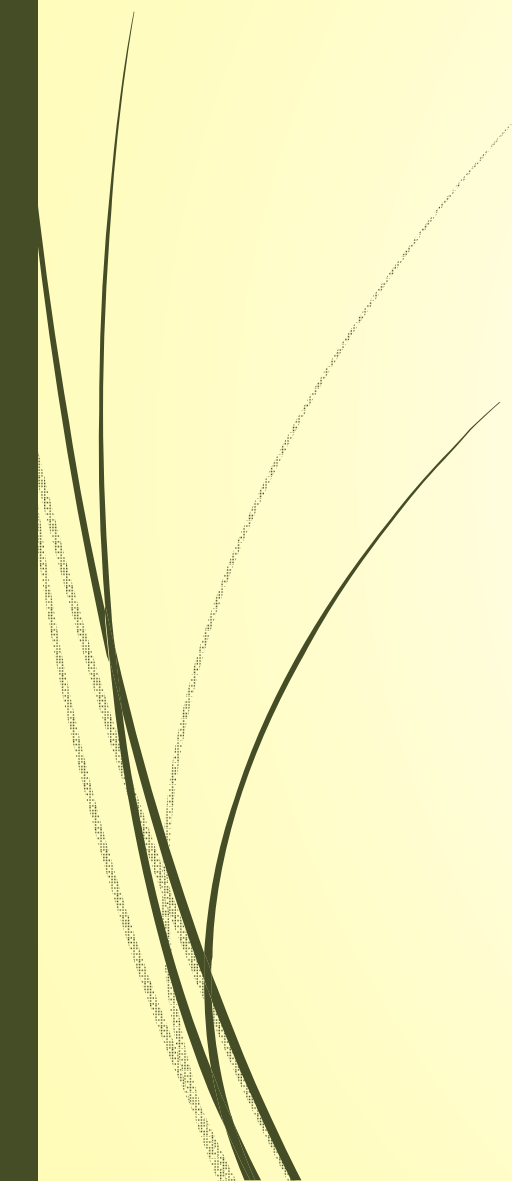
Perform – alternative procedures

Scope Limitation

Fraud Risk
assessment



Results



- Factors raising doubt on reliability of response:
 - Obtain further audit evidence to resolve doubts.
 - Response to request is not reliable:
 - Evaluate implications on assessment of RMM or related Nature, Timing, Extent of audit procedures.
 - For each non - response:
 - Perform alternative procedures.
 - Response to Positive confirmation is necessary for SAAE:
 - Alternative procedures will not provide the audit evidence required by auditor.
 - Investigate exceptions to determine if they indicate misstatements.



Negative Confirmations

- Provide less persuasive audit evidence than positive confirmations.
- Not to use NCR as sole substantive audit procedure to address assessed Risk at assertion level unless all the following conditions are met:
 - Auditor assessed Risk as low & has obtained SAAE re operating effectiveness of controls relevant to assertion.
 - Population of relevant items comprises large number of small, homogeneous account balances/transactions/ conditions.
 - Very low exception rate is expected
 - Auditor not aware of any circumstances/ conditions that would cause recipients NCR to disregard the request.

Evaluating the Evidence Obtained

- Whether the results of ECP provide relevant and reliable audit evidence.

OR

- Whether performing further audit procedures is necessary.

- Categorisation of results:
- Agreement by confirming parties.
- Responses deemed unreliable.
- Non-response.
- Response indicating exception.

Action plan

Management refusal
is unreasonable

Unable to obtain
reasonable assurance by
alternative procedure

Communicate with
TCWG and implication
on Audit Opinion



SA 560 – Subsequent Event

Subsequent Events

- ▶ According to Ind AS 10, “Events after the Reporting Period”, events occurring after the reporting period are categorised into two viz.
 - ▶ (i) Adjusting events i.e. those require adjustments to the amounts recognised in its financial statements for the reporting period and
 - ▶ (ii) Non-adjusting events i.e. those do not require adjustments to the amounts recognised in its financial statements for the reporting period.

In certain cases, Management judgement may be required to categorise the events into one of the above categories.

Subsequent Event

- ▶ *Similarly, in accordance with AS 4, “Contingencies and Events Occurring After the Balance Sheet Date”,*
 - ▶ *adjustments to assets and liabilities are required to be made 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.*
 - ▶ *However, adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. Disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise.*

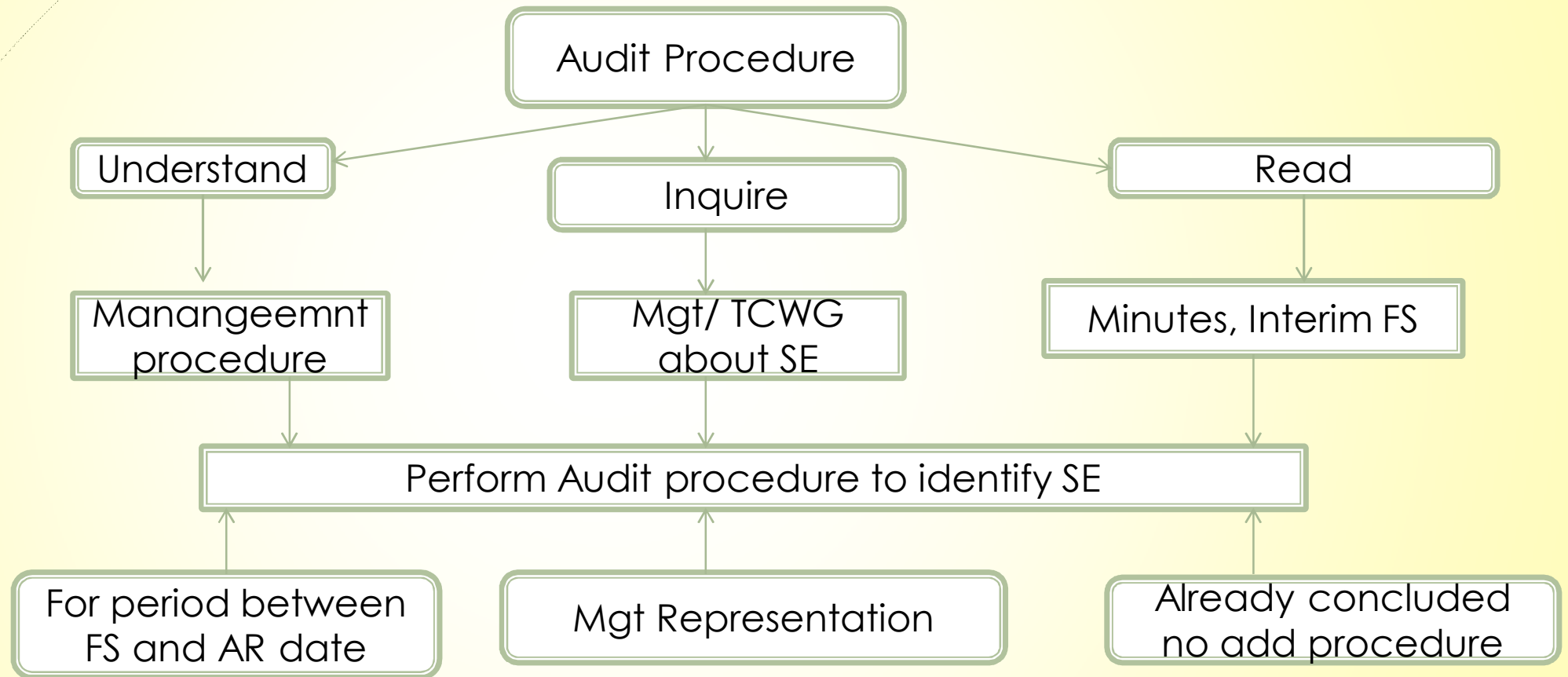
Key terms

- **Date of the financial statements** – The date of the end of the latest period covered by the financial statements.
- **Date of approval of the financial statements** – The date on which all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognized authority have asserted that they have taken responsibility for those financial statements.
- **Date of the auditor's report** – The date the auditor dates the report on the financial statements in accordance with SA 700(Revised). This date informs the users of the auditor's report that the auditor has considered the effects of events and transactions of which the auditor became aware and that occurred up to that date [paragraph A58 of SA 700(Revised)].
- **Date the financial statements are issued** – The date that the auditor's report and audited financial statements are made available to third parties.
- **Subsequent events** – 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.

Responsibilities of Auditors

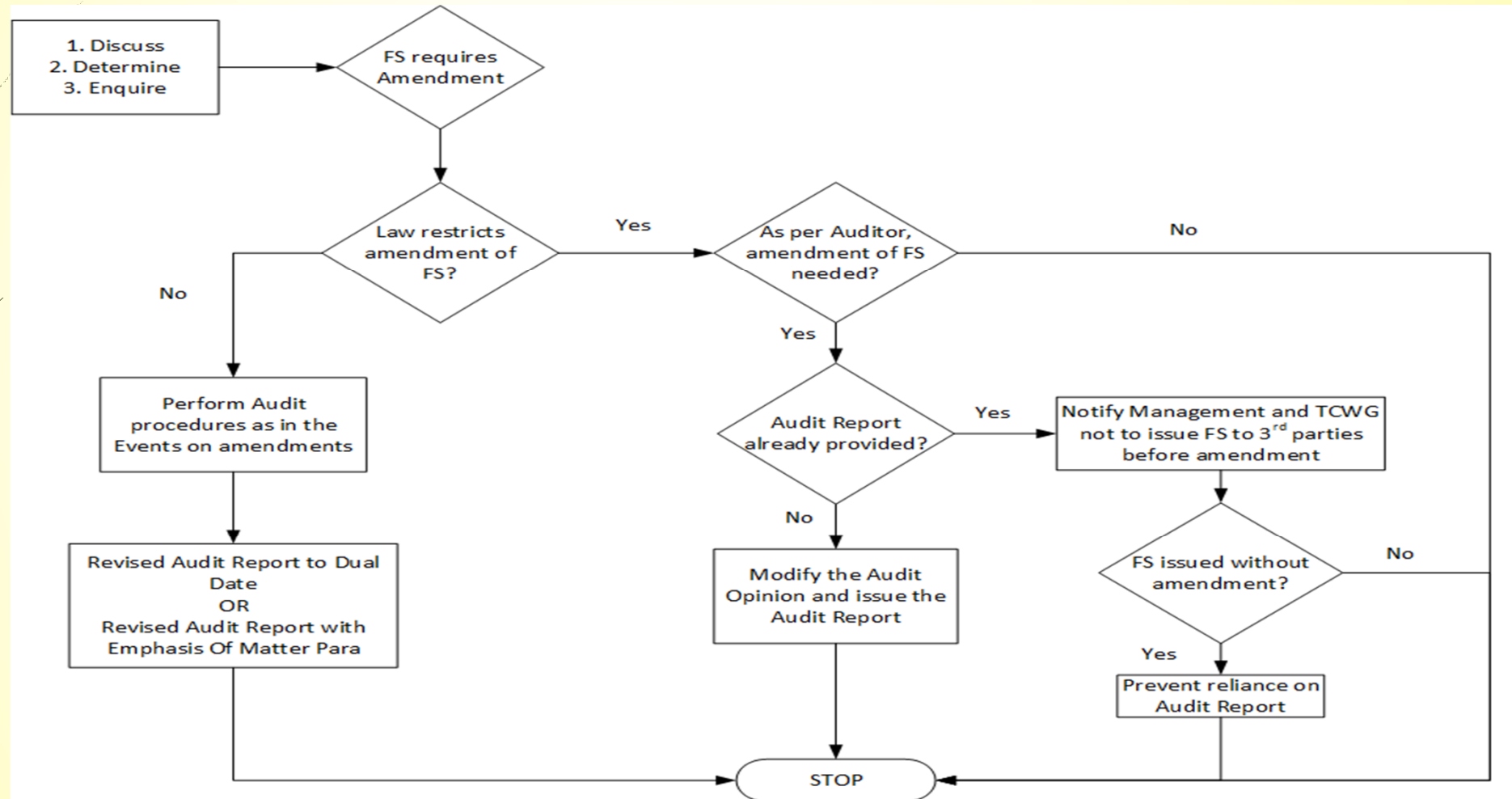
- AS per SA 560
- *Events Occurring Between the Date of the Financial Statements and the Date of the Auditor's Report*
- *The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the 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. (Ref: Para. A6)*

Requirements of SA

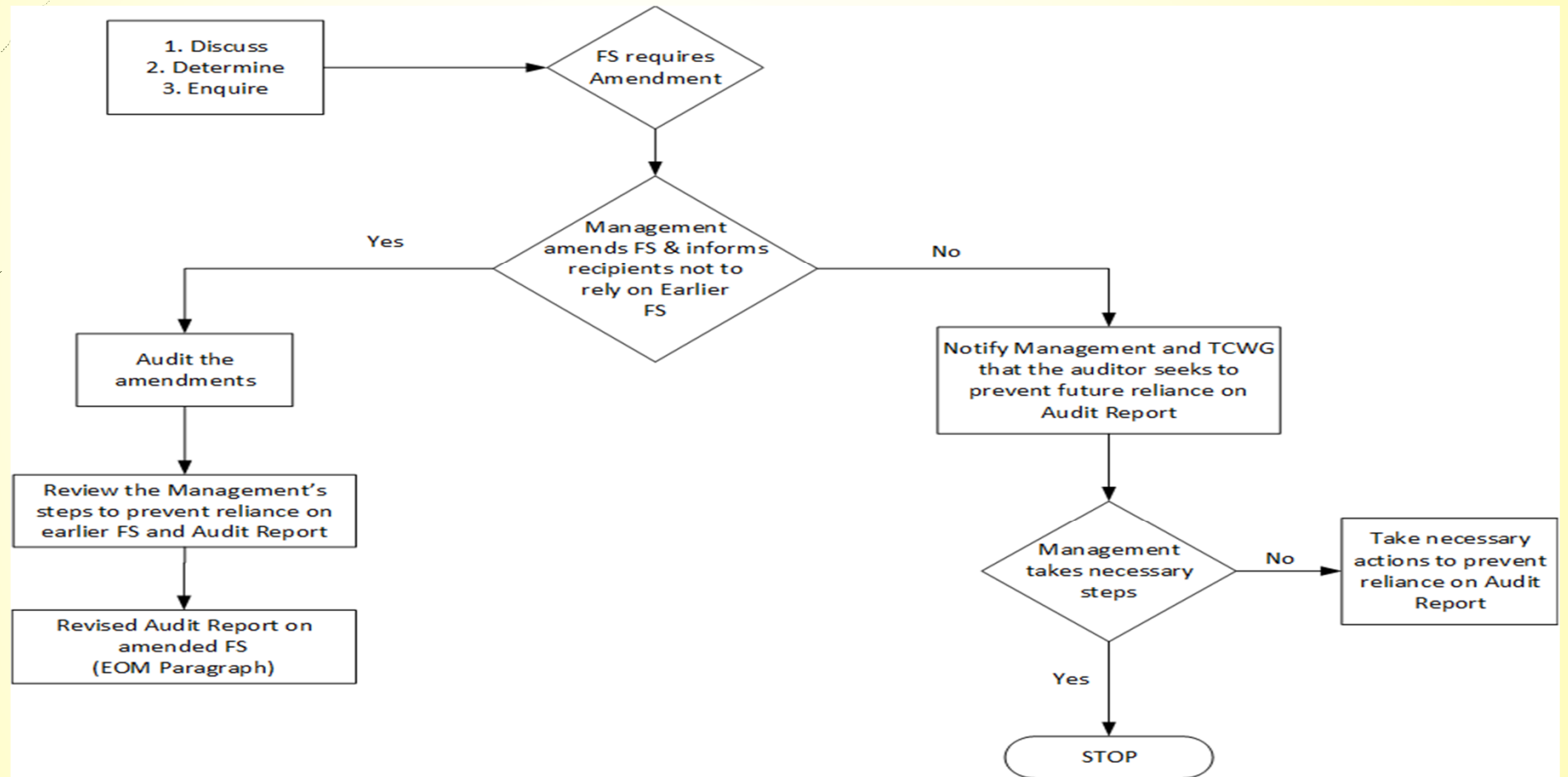


Determine each SE requirement adjustment or disclosure is appropriately dealt with in the FS

Fact A



Fact B





Auditors' Responsibilities

- ▶ **in relation to obtaining sufficient appropriate audit evidence about subsequent events impacted by the COVID-19 pandemic**

It is important to consider COVID-19 as a factor in an entity's analysis of estimates required in the financial statements, including, but not limited to, estimates related to expected credit loss, inventory obsolescence, impairment analyses, variable and contingent compensation etc. Therefore, judgment needs to be applied to determine whether the conditions existed at the date of the financial statements or not.

Lets see few examples

Subsequent Event

- ▶ The following are examples of events or conditions that may be affected by, or exist as a result of, the COVID-19 pandemic, and which may be relevant for the auditor in determining whether subsequent events have occurred and, if applicable, have been appropriately reflected in the financial statements

Example

New commitments, borrowings or guarantees that have been entered into as a result of the pandemic

Invocation of force majeure clause after the year-end by any party

Recent or planned sales or acquisitions of assets

Subsequent Event

Examples

Expected credit loss provisioning

Relief or economic stimulus payments provided by the government in the form of loans or grants

Any events that will bring into question the appropriateness of accounting policies and assumptions used in the financial statements

Impact on realizable values of inventory of a short-term nature

Indications of impairment in the value of investments in companies



Subsequent Event

- **Professional Skepticism**
- **Written Representations**
- **Communication with Those Charged with Governance**



Critical Consideration

- **Are audit procedures required if the events of the COVID-19 pandemic became known to the auditor after the date of the auditor's report?**
- **How do the results of the auditor's procedures on subsequent events impact the auditor's report?**



570 (R) – Going Concern



Going Concern

- ▶ Timely and effective communication between the management and the auditor is essential in ensuring that both are able to fulfil their respective responsibilities in relation to going concern aspect during these uncertain times.

Management responsibilities

- GC - a fundamental principle in preparation of Financial Statements.
 - Management to make a specific assessment of GC Assumption.
 - Judgment about inherently uncertain future outcome of events/conditions:
 - Period- at least 12 months from date of FS.
 - Based on – information available at particular point of time.
 - Affected by – size & complexity of entity, Nature & Condition of business.



Auditors Responsibilities

- Obtain sufficient appropriate audit evidence about appropriateness of management's use of Going Concern Assumption
- Conclude whether there is material uncertainty about entity's ability to continue as Going Concern.

Risk Assessment procedures

- Determine events/conditions that cast doubt on entity's ability to continue as GC:
 - Financial, Operating, Other.

Financial	Operating	Others
Net liability or net current liability position.	Management intentions to liquidate the entity or to cease operations	Non-compliance with capital or other statutory requirements
Negative operating cash flows indicated by historical or prospective financial statements.	Loss of key management without replacement.	Pending legal or regulatory proceedings
Adverse key financial ratios, Substantial operating losses	Labour difficulties	Uninsured or underinsured catastrophes
Inability to comply with the terms of loan agreements.	Loss of a major market, key customer(s)	Changes in law or regulation or government policy



Evaluation of Management Assessment



- Evaluation may include:
 - Evaluation of the process management followed to make its assessment.
 - Assumptions on which the assessment is based and management's plans for future action.
 - Whether management's plans are feasible in the circumstances.
- Inquire of management as to its knowledge of events/conditions beyond period of management's assessment:
 - If events/conditions identified - request management to evaluate potential significance.
 - No responsibility to perform any other audit procedure except inquiry.

Additional audit procedures

- Analysing and discussing cash flow, profit and other relevant forecasts with management.
- Analysing and discussing the entity's latest available interim financial statements.
- Reading the terms of debentures and loan agreements and determining whether any have been breached.
- Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.
- Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
- Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.



Additional audit procedures

- Evaluating the entity's plans to deal with unfilled customer orders.
- Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.
- Confirming the existence, terms and adequacy of borrowing facilities.
- Obtaining and reviewing reports of regulatory actions.
- Determining the adequacy of support for any planned disposals of assets.



Key questions/inquiries an auditor should consider due to COVID-19

- Which matters specific to the current environment and the effects of the COVID-19 pandemic should be considered by the management when assessing the entity's ability to continue as a going concern?
- When evaluating management's assessment of the entity's ability to continue as a going concern, what period should be used by the auditor?
- Which audit procedures should an auditor perform to evaluate management's plans for future actions and the feasibility of those plans?
- Can an auditor rely on "Support Letter" from Parent Company in COVID-19 situation while making going concern assessment?



Thank You !

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Responsibilities & Obligations

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