



SA 560- Subsequent Events

This SA is effective for audits of financial statements for periods beginning on or after April 1, 2009

Objectives of SA

- To obtain sufficient appropriate audit evidence whether events occurring between the date of the FS and the date of the auditor report that require adjustment of, or disclosure in, the FS are appropriate and
- Respond appropriately to facts that become known to the auditor after the date of the auditor report, that, had they been known to the auditor at the report signing date, the auditor would have amended the report.

Scope

The Financial reporting frameworks ordinarily identifies two types of events:

- Those that provide evidence of conditions that existed at the date of the financial statements; and
- Those that provide evidence of conditions that arose after the date of the financial statements.

SA 700 explains that the date of the auditor report informs the reader that the auditor has considered the effect of events and transactions of which the auditor becomes aware and that occurred up to that date.

Audit procedures for subsequent events review:

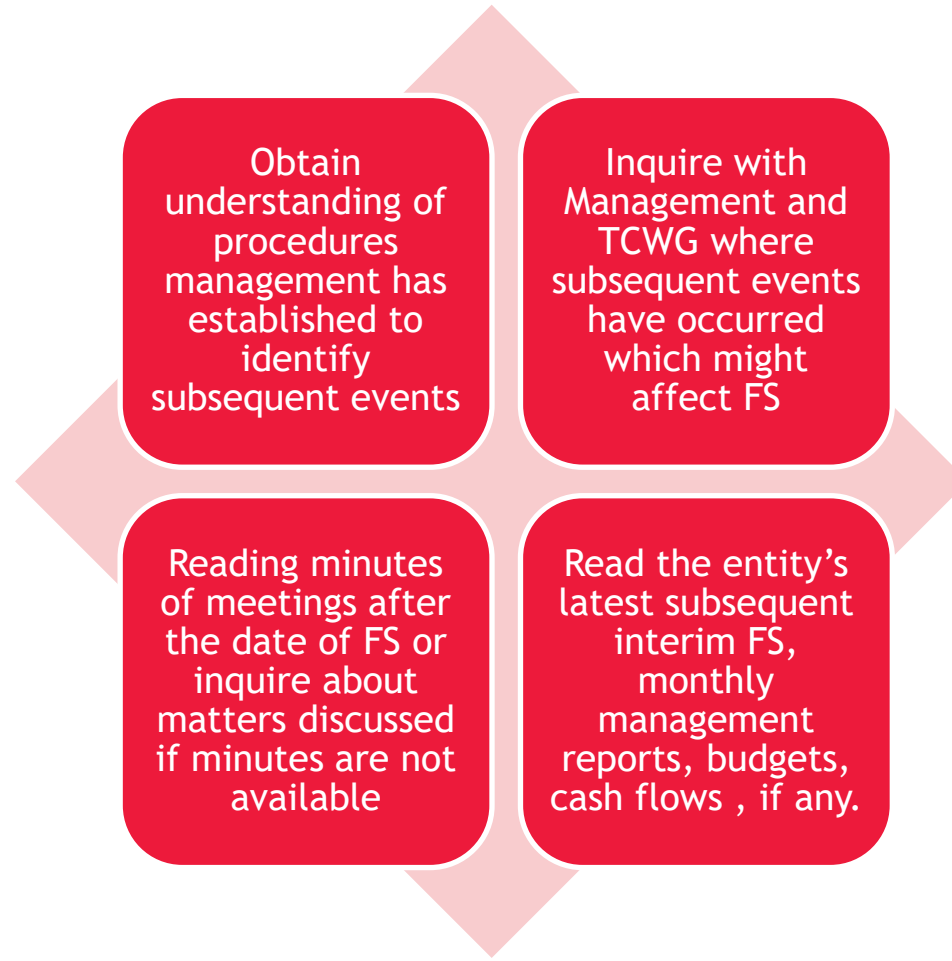
- Journal entries posted subsequent to the balance sheet date like bad debts etc.
- Expenses of prior year/period accounted after the year end.
- Oral or written enquiries with the lawyers of the entity.
- Any new acquisitions/disposal of investments/assets have occurred or are planned.
- Current status of items that were accounted based on preliminary data that were available previously.
- Any developments on risk areas like status of litigations pending in courts of law.
- Any unusual accounting adjustments contemplated by the management.
- Any events, which might question the appropriateness of the accounting policies, followed, eg. events that may question the going concern assumption of the entity.
- Whether new commitments, borrowings or guarantees have been entered into.
- 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 there have been any developments regarding contingencies.
- Whether any events have occurred that are relevant to the recoverability of assets.

SA provides guidance for the following situations:

To bring out the responsibility of auditors in the consideration of events occurring after the balance sheet date in an audit of financial statements:

1. Events Occurring Between the Date of the Financial Statements and the Date of the Auditor Report
2. Facts Which Become Known to the Auditor After the Date of the Auditor Report but Before the Date the Financial Statements are Issued
3. Facts Which Become Known to the Auditor After the Financial Statements have been Issued

1. Events Occurring Between the Date of the Financial Statements and the Date of the Auditor Report



1. Events Occurring Between the Date of the Financial Statements and the Date of the Auditor Report (Contd)

Procedures to be followed by Auditor:

- Obtain audit evidence that all events occurring between date of FS and date of auditor's report, if require adjustment or disclosure have been identified.
- The auditor shall take into account the auditor's risk assessment in determining the nature and extent of such audit procedures.
- Perform a subsequent events testing up to the date of the FS

Written Representations

Obtain written representation that all events occurring subsequent to the date of the FS and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed to us.

2. Facts Which Become Known to the Auditor After Date of Auditor's Report but Before the Date the Financial Statements are Issued

Date of issues of Financial statements:

The date that the auditor's report and audited financial statements are made available to third parties, including a wide range of stakeholders (bankers, shareholders,).

Paragraph A4 of SA 560 further clarifies that “The date the financial statements are issued generally depends on the regulatory environment of the entity. In some circumstances, the date the financial statements are issued may be the date that they are filed with a regulatory authority.”

2. Facts Which Become Known to the Auditor After Date of Auditor's Report but Before the Date the Financial Statements are Issued

- 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 audit report date but before the date the FS are issued, a fact becomes known to the auditor that, had it been known at the date of the auditor report, it may have caused the auditor to amend the report.
 - ❖ 1) Discuss the matter with management and TCWG
 - ❖ 2) Determine if FS need amendments
 - ❖ 3) Inquire how management intends to address the matter in the FS

2. Facts Which Become Known to Auditor After Date of the Auditor's Report but Before Date the Financial Statements are Issued (contd)

If management amends the financial statements, the auditor shall:

- (a) Carry out audit procedures necessary in the circumstances on the amendment.
- (b) Extend the audit procedures performed above to determine the subsequent events between the date of the financial statements to the date of the auditor report to this situation
- (c) Provide a new auditor report. However, the same shall not be dated prior to the date of the previous audit report.

DUAL DATING

Dual dating refers to dating the audit report on completion of audit work along with an additional later date for disclosure of the impact of a subsequent event. Sometimes after completion of audit work but before issuance of the audit report, a significant event comes to the audit team's attention.

2 fold purpose of dual dating :

- (1) to provide a means of inserting important information in the financial statements identified after audit work is complete; and
- (2) to inform users that the auditor takes full responsibility for all subsequent events only up to the end of audit work and for the specifically identified subsequent event. However, responsibility is not taken for other events that may have occurred after the end of audit work.

DUAL DATING

Illustrative wordings

(Date of auditor’s report), except as to Note Y, which is as of (date of completion of audit procedures restricted to amendment described in Note Y)

“Auditors report dated 5 July 2023, except as to Note 25, which is as of 8 July 2023 and restricted to amendment described in Note 25”.

3. Facts Which Become Known to the Auditor After the Financial Statements have been Issued

- The auditor has no obligation to perform any audit procedures regarding the financial statements after date of the auditor's report.
- However, when, after FS are issued, a fact becomes known to the auditor that, had it been known at the date of the auditor report, it may have caused the auditor to amend the report.
 - Discuss the matter with management and TCWG
 - Determine if FS need amendments
 - Inquire how management intends to address the matter in the FS

3. Facts Which Become Known to the Auditor After the Financial Statements have been Issued (contd)

In cases where management amends the FS, auditor shall:

- (a) Carry out the audit procedures necessary in the circumstances on the amendment.
- (b) Provide a new auditor's report on the amended financial statements.
- (c) Review the steps taken by management to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation

In cases where financial statements are issued to third parties before the amendments are made:

The auditor's course of action to prevent reliance on the auditor's report on the financial statements depends upon the auditor's legal rights and obligations. Consequently, the auditor may consider it appropriate to seek legal advice.

EXAMPLES

A flood occurred on 10 April 2023, in which inventories worth Rs. 10 crores were totally destroyed. The financial statements of the company have not been approved till the date of fire. Management says that since the loss occurred in the year 2021-22, no provision for the loss needs to be made in the financial statements for 2020-21.

YOUR COMMENTS AS AN AUDITOR?

No effect on items appearing on the balance sheet date. But, need to determine whether this loss will not materially affect the substratum of the company as per its size, nature and complexity of operations.

EXAMPLES

On 22 March 2023, a customer initiated legal proceedings against Company in relation to breach of contract. On 31 March 2023, Company's legal advisers informed the directors that it was unlikely the company would be found liable; therefore, no provision has been made in the financial statements, but disclosure as a contingent liability has been made.

On 25 April 2023, the court found Company liable on a technicality and is now required to pay damages amounting to a material sum. FS year end is 31 March 2023 and AGM is scheduled on 27 May 2023. The audit report has not been issued yet on 25 April 2023.

YOUR COMMENTS AS AN AUDITOR?

Ensure a provision has been recognized as opposed to disclosure as a contingent liability, and ensure the provision is reasonable in relation to the outcome of the court case.