

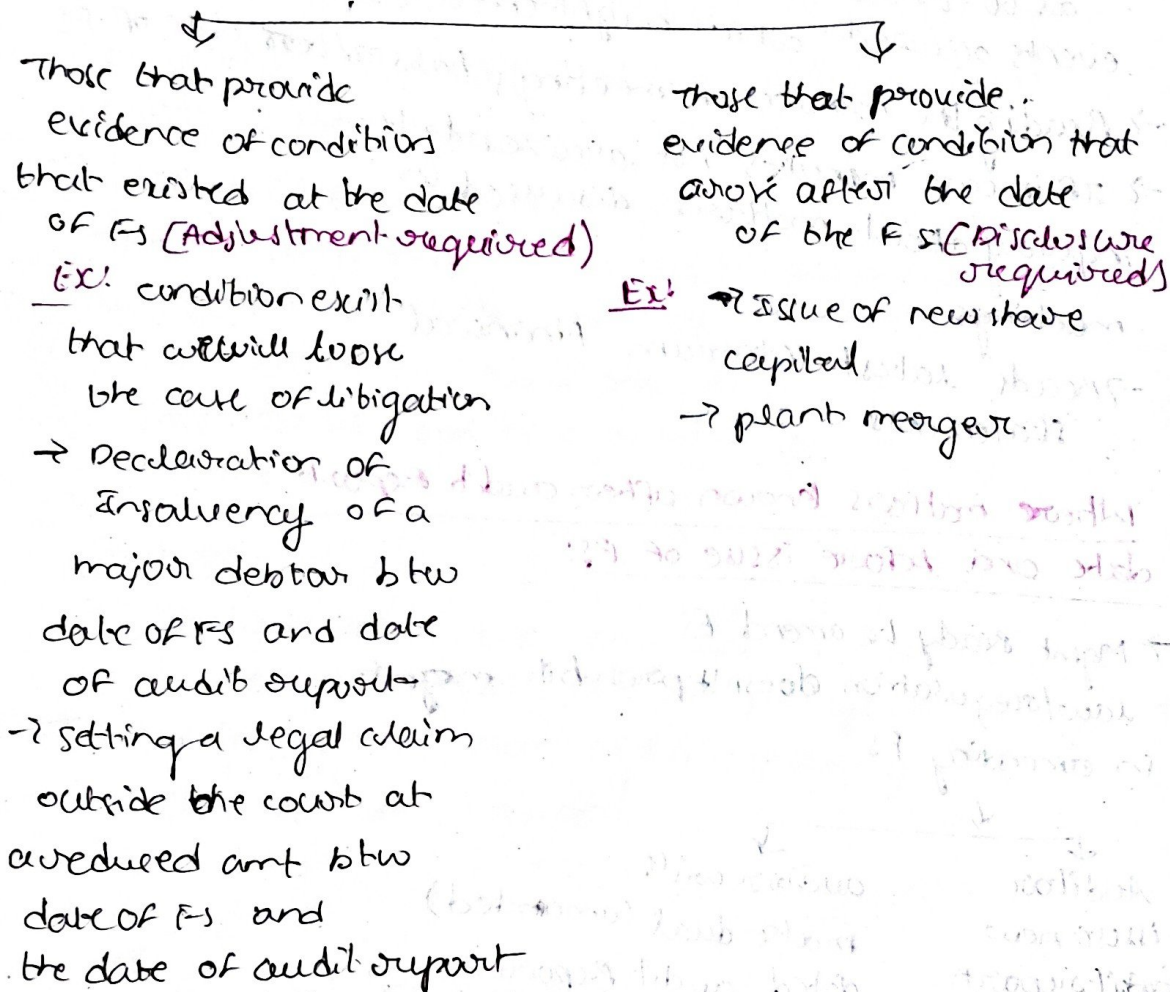
CH7. Completion and Review

SA 560
570
580
265
450
260
CH7

Definition of subsequent events: [SA 560]

- That occurred after date of financial statements and before Audit Report
- After audit report
 - FS Issued
 - FS not Issued.

FRT generally identifies two types of events



Objective of auditor

- Obtain sufficient and appropriate audit evidence whether events occurring b/w date of FI and date of audit report.
- Required adjustments and disclosures are appropriately made in FS.
- In case of matters after audit report date, respond appropriately, as had they been known (to auditor on the date of audit report). The auditor may have amended the audit report.

The audit procedures that auditors shall perform to obtain audit evidence that adjustment and disclosures requirements have been appropriately made:

- obtaining understanding on procedures of mgmt in finding subsequent events
- Inquiring mgmt directly and indirectly as to know whether the subsequent events occurred, which might affect FS.
- Reading the minutes of meetings held after date of FS
- If in case minutes not available then inquiry about matters discussed in meetings
- Read latest interim financial statements

These matters known after audit report date and before issue of FS:

→ Mgmt ready to amend FS
law/regulation doesn't prohibit mgmt in amending FS

Auditor issue new audit report + EDM/OM
↓
auditor will make dual (amended) dated audit report.
↓
checks only subsequent events occurred and adds additional date)

→ Mgmt doesn't amend FS

a) If auditor's report has not yet been provided to entity - shall modify opinion
- then provide audit report

→ If auditor's report was already submitted

• notify mgmt and T&B
- ~~entity~~ not to issue the FS to third parties before necessary amendments have been made

If mgmt amends FS

- carry out audit procedures necessary in circumstances on amendment.
- Review step taken by mgmt to ensure that previously issued FS together with auditor's report is informed of the situation.
- If no law and regulation is prohibiting from amendment of FS to the effect of subsequent events then he will extend the audit procedures
* provides ~~new~~ new audit report on amended FS.

Auditor shall

- include in new or amended auditor's report an EDM or OM paragraph
- retaining the note which explaining why ~~the FS~~ were amended
audit report

If mgmt don't take any necessary steps to ensure that anyone in receipt of previous FS is informed of the situation:

→ auditor will notify mgmt to take necessary steps.

→ auditor seeks to prevent reliance on the Audit Report

→ Despite they don't do any necessary steps, auditor shall take appropriate action.

Going concern and its significance (SAS 70)

- The FS are prepared assuming that the entity is not going to discontinue its operations in foreseeable future
- Going concern shouldn't be used when mgmt has intention to liquidate the entity and cease operations.

If company following going concern then:

Prepare FS assuming assets, liabilities will be realized and liabilities will be discharged in normal course of business.

* Accounting will be done on liquidation basis if going concern concept is not followed.

Objectives of auditor accordance with SAS 70

- To obtain sufficient and appropriate audit evidence regarding and conclude on the appropriateness of mgmt's use of going concern basis of accounting in preparation of the FS.
- To conclude on basis of audit evidence obtained whether material uncertainty exists about the entity's ability to continue as a going concern.
- To report on going concern continuity.

Events that cast ~~significant~~ significant doubt on the entity's ability to continue as going concern?

- Net current liability position
- Fixed term borrowing approaching maturity without realistic prospects of renewal or repayment

- excessive reliance on short-term borrowings to finance long term assets.
- NO support from creditors
- Negative cash flows indicating by historical or prospective financial statements
- Adverse key financial ratios
- deteriorated value of assets
- substantial operating losses
- Announcements of discontinuance of dividends
- inability to pay on due dates to creditors
- unable to comply loan agreements.
- Inability to obtain finance to produce new product.

operating events

- Intention of Mgmt to liquidate
- Key ~~products~~ customers stopped purchasing
- loss of key mgmt without replacement
- shortage of suppliers
- labour difficulty

Other events

- change in law and regulations, govt policies
- pending legal or regulatory proceedings
- uninsured catastrophes

Auditor shall determine whether preliminary assessment were done by ~~auditor~~ mgmt regarding going concern.

- If assessment has done by mgmt
- Discuss the assessment with mgmt
- Determine if mgmt has identified event conditions causing doubt on going concern
- determine mgmt plan to address them

If mgmt assessment has been done by mgmt:

→ discuss with mgmt, basis for going concern basis of accounting

Evaluating mgmt's assessment:

- If there is lack of detailed analysis by mgmt
It's not auditor's responsibility to correct.
- There may be circumstances where mgmt haven't done detailed evaluation procedures then auditor should make sufficient audit procedures to conclude going concern was appropriate.
- Auditor may evaluate the evidences obtained from performing other audit procedures during audit, to assess appropriateness of the use of assumption
- If mgmt assessment of going concern is for less than 12 months from the date of FS the auditor

Additional audit procedures:

- Requesting mgmt to make assessments
- evaluating mgmt's plans for future actions
- Analysis of cash flow forecasts prepared by entity
- Consider any information or facts made available post the going concern assessment
- Requesting written representations from mgmt

→ If auditor feels that it's inappropriate for entity for following going concern then auditor shall express an adverse opinion

→ If Auditor feels it appropriate to use going concern but a material uncertainty exists.

then,

- adequate disclosures about these material uncertainties then
- gives unmodified opinion
- In auditor's report, in separate section mentions about material uncertainty, if adequate disclosure is not given then gives qualified or adverse opinion and mentions in Basis paragraph.

Written Representation [5A580]

- It will support the audit evidences.
 - It will confirm some matters
- Written Representation as audit evidence

Audit evidence is info using which the conclusions of audit are drawn and opinions are based

→ written representation are important source of audit evidence

→ If mgmt refuses for written representation then auditor shall alert that there is

possibility that significant issues may exist

→ written representation doesn't sufficient provide appropriate audit evidence on their own

→ doesn't nature and extent the audit procedures to be conducted

Objective of auditor (SAS 50)

- written representation by mgmt that it was done with responsibilities for preparation of financial statements and info provided to auditor is complete.

When auditor asks mgmt to occasion its acknowledgement:

- Terms signed by previous members are not existing now.
- Terms of audit are prepared in previous years.
- indications that mgmt misunderstands those responsibilities
- changes in circumstances make it appropriate to do so.

Written Representation with respect to subsequent events:

- Requests management to submit written representation that all events occurring subsequent to date of FS were adjusted and disclosed appropriately as per IFRS
- Written representation that mgmt communicated all deficiencies in internal control of which mgmt is aware.

Requested written representation not provided

- Discuss with mgmt
- evaluate the integrity of mgmt
- evaluate the reliability of representations & audit evidence in general.

- take appropriate action, evaluate the impact on the auditor's report as per SA 705.

Auditor shall provide disclaimer of opinion

- Requested written representation not provided by mgmt

- Doubts over integrity of mgmt & reliability of written representation provided by mgmt

Doubts over reliability of written representation

- If evidence obtained by auditor are inconsistent with written representation
- concerns over mgmt's commitment & enforcement of ethics/integrity/competence and diligence.

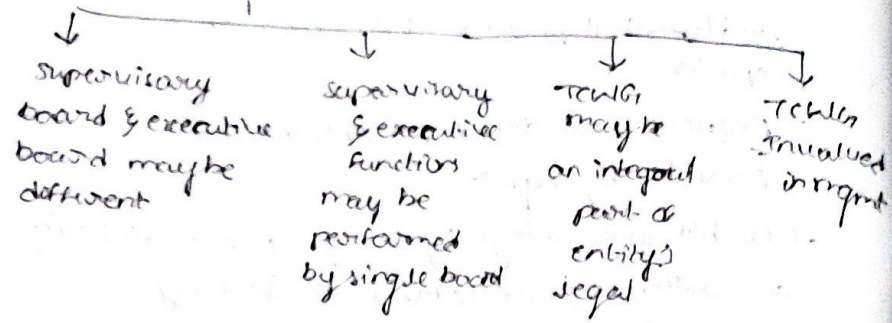
SA 260 communication with TCWG

- auditor and TCWG in order to understand matters relating to audit
- working relationship will be developed
- helps auditor to obtain info related to audit from TCWG
- Reduces risk of material misstatements

Who are TCWG?

- The persons who supervises or oversees the strategic direction of the company.
- overseeing financial reporting process
- Firms will have different form of governance
- In some entity's TCWG are integral part of entity and involved in mgmt in other cases

In some entities



-> In such cases it may not be appropriately identifiable as to from whom to communicate.

-> Auditor may discuss it with engagement party to identify the relevant person to whom to communicate.

Objectives of auditor

- > clearly communicate TCFOR, auditor's Responsibility
- > and give TCFOR the overview of plans related to audit.
- > to obtain info from TCFOR those which are related to audit
- > Also provide info to TCFOR that they will oversee the financial reporting process
- > to promote two way communication between auditor and TCFOR

Matters to be communicated by auditor

- > Responsibility of auditor -> to form opinion of FS prepared by management with the oversight of TCFOR
- > planned scope and timing of audit & also areas with significant risks
- > To communicate ~~the~~ significant matters

In case of listed company

- > auditor & others in the firm the firm complied with ethical requirements regarding independence
- > Relationship & other matters b/w auditor & entity, impacting the independence of auditor

- > discuss with TCFOR the qualitative aspect of entity's accounting practices (including accounting policies, accounting estimates, disclosures of financial statements)
- > significant difficulties during audit
- > unless TCFOR involved in managing the entity
 - > significant matters that arose during audit & discussed with mgmt
 - > written representation requested by auditor

-> Any other matter which as per auditor's Judgment is relevant for overseeing financial reporting process.

ICC 45 ->

Communicating significant deficiencies in Internal control.

Communicating significant deficiencies in internal control in writing to T&MGR reflects importance of these matters.

SA 265 (scope)

- Auditor's responsibility to communicate appropriately to T&MGR and mgmt, the deficiencies of internal control
- Required to obtain understanding of internal control relevant to audit when identifying and assessing risks of material misstatements
- Marks up those risk assessments, auditor considers internal control in order to design audit procedures that are appropriate for the circumstances not for expressing opinion on the effectiveness of internal control.
- May identify deficiencies in internal control. Specific identified deficiencies required to be communicated to T&MGR and mgmt.

Deficiency in internal control - This exists when

→ A control is designed, implemented or operated in such a way that it's unable to prevent or detect and correct misstatements in FS on a timely basis.

Significant deficiency in internal control

→ A deficiency or combination of deficiencies in internal control that is important aspect auditor's professional judgement

Examples of matters that the auditor may consider in determining whether deficiency or combination of deficiencies in internal control constitute significance:

- likelihood of material misstatements
- Exposure to financial statements
- Interaction with other deficiency
- Cause and frequency of expected detections.
- Importance of controls to financial reporting
 - General monitoring control
 - Controls over prevention and detection of fraud
 - accounting policies and application
- subjectivity and complexity of determining estimated amounts

Evaluation of misstatements SA 450

Communication and correction of misstatements

- timely communication is important to enable the ~~mgmt~~ mgmt to evaluate whether it is a misstatement & inform the auditor if it disagrees
- doesn't make correction in misstatement
- Auditor shall understand reason for not making correction

whether or uncorrected misstatements are material:

- Nature & size of misstatements in relation to account balances, disclosures, class of transactions, or effect on FS.
- evaluate the effect of uncorrected misstatement in relation to prior period items