



## SA 560 – Subsequent Events

**Subsequent Events** - Events occurring **b/w date of FS & date of report & facts** that become known to auditor **after date of report**

FRFs identify two types of such events

- Events providing evidence of **conditions that existed at date of FS**. Eg. Insurance Claim Settled
- Events providing evidence of conditions that **arose after date of FS**. Eg. Dividend

<p><b>Objectives of Auditor</b></p> <ul style="list-style-type: none"> <li>• To <b>Obtain SAAE</b> about whether subsequent <b>events</b> that require <b>adjustment or disclosure</b> in FS are appropriately <b>reflected in FS</b></li> <li>• To <b>Respond</b> appropriately to <b>facts</b> that become known to auditor <b>after date of report</b>, that, had they been known to auditor at that date, may have caused <b>auditor to amend report</b></li> </ul>	<p><b>Procedures for Events B/w FS &amp; Report Date</b></p> <ul style="list-style-type: none"> <li>• <b>Inquiring Mgt &amp; TCWG</b> if subsequent events have occurred affecting FS</li> <li>• Obtain <b>understanding of Mgt procedures</b> to ensure that subsequent event are identified</li> <li>• <b>Reading minutes of meetings</b>, of owners, Mgt &amp; TCWG held after date of FS</li> <li>• Reading entity's latest <b>subsequent interim FS</b></li> <li>• <b>Requesting Mgt &amp; TCWG</b> to provide <b>WR</b> that all subsequent event are adjusted or disclosed</li> </ul>
<p><b>Facts that is known to auditor after date of report but before date FS are issued (Case 1)</b></p>	<p><b>Facts which become known to auditor after FS have been issued (Case 2)</b></p>
<p>Auditor has <b>no obligation</b> to perform any procedures after date of report. When after date of report, fact is known to auditor that may have <b>caused him to amend report</b>, auditor shall -</p> <ul style="list-style-type: none"> <li>• <b>Discuss matter</b> with Mgt &amp; TCWG</li> <li>• Determine if <b>FS need amendment</b> &amp;, if so</li> <li>• <b>Inquire how Mgt</b> intends to <b>address</b> matter in FS</li> </ul> <p><b>Situation 1</b> - If <b>Mgt amends</b> FS, auditor shall -</p> <ul style="list-style-type: none"> <li>• Carry out <b>procedures on amendment</b></li> <li>• <b>Extend procedures</b> to date of new report</li> <li>• <b>Provide new report</b> on amended FS <b>not dated earlier</b> than <b>date of approval</b> of amended FS</li> <li>• <b>Review Mgt steps</b> that <b>anyone in receipt</b> of FS &amp; report is <b>informed of situation (Case 2 only)</b></li> <li>• <b>Include</b> in new or amended report <b>EOM or OM para</b> for reason for amendment (<b>Case 2 only</b>)</li> </ul> <p><b>Situation 2</b> - When <b>L&amp;R</b> or FRF does not prohibit (<b>allows</b>) Mgt from <b>restricting amendment to subsequent events</b>, auditor is <b>permitted</b> to restrict procedures to amendment. Auditor shall either -</p> <ul style="list-style-type: none"> <li>• Amend report to <b>include additional date</b> that indicates procedures are <b>restricted solely to amendment</b> of FS described in note to FS or</li> <li>• <b>Provide new</b> or amended report that includes <b>EOM or OM para</b> that procedures on subsequent events are restricted solely to amendment of FS as described in note to FS</li> </ul>	
<p>If <b>Mgt does not amend FS</b> when auditor requires</p> <ul style="list-style-type: none"> <li>• If <b>report is not provided</b> to entity, auditor shall <b>modify opinion</b> &amp; then provide report or</li> <li>• If <b>report is provided</b>, <b>notify Mgt &amp; TCWG, not to issue FS &amp; If issued</b> without amendments, auditor shall take appropriate action to <b>prevent reliance on report</b></li> </ul>	<ul style="list-style-type: none"> <li>• If <b>Mgt does not take necessary steps</b> to ensure that anyone in receipt of previously issued FS is informed &amp; <b>does not amend FS</b> when auditor requires</li> <li>• Auditor shall <b>notify Mgt &amp; TCWG</b>, that auditor will seek to <b>prevent future reliance on report</b></li> </ul>

Going Concern is **fundamental a/c assumption**. FS are prepared on basis that entity is **GC** & will continue its **operations for foreseeable future**, **Unless** Mgt intends to **liquidate** entity or to **cease operations** or has **no realistic alternative** but to do so (in which case, **FS** are prepared on **liquidation basis**)

<p><b>Responsibility for assessment of entity's ability to continue as GC</b></p> <ul style="list-style-type: none"> <li>• <b>Mgt</b> has to <b>assess</b> entity's ability to continue as <b>GC</b> even if <b>FRF</b> does <b>not include explicit requirement</b>. Mgt's assessment <b>involves making judgment</b>, about uncertain <b>future outcomes</b> of events</li> </ul> <p><b>Responsibilities/Objectives of auditor</b></p> <ul style="list-style-type: none"> <li>• To obtain <b>SAAE</b> for <b>appropriateness</b> of Mgt's <b>use of GC</b></li> <li>• To conclude <b>if material uncertainty exists</b> about entity's ability to continue as <b>GC</b></li> <li>• These responsibilities <b>exist even if FRF does not include explicit requirement</b> for Mgt to make assessment of <b>GC</b></li> <li>• However, <b>absence of reference</b> to material uncertainty in report <b>cannot</b> be viewed as <b>guarantee</b> as to entity's ability to continue as <b>GC</b></li> </ul>	<p><b>Risk assessment procedures</b></p> <p>Auditor shall determine <b>if Mgt</b> has already <b>performed assessment</b> of <b>GC</b> &amp; -</p> <ul style="list-style-type: none"> <li>• If such <b>assessment is performed</b>, auditor shall discuss it with Mgt &amp; <b>how Mgt plans to address</b> such events or conditions</li> <li>• If such assessment is <b>not yet performed</b>, auditor shall discuss with Mgt, <b>basis for use of GC</b> &amp; whether events or conditions exists</li> </ul> <p><b>Evaluating Mgt's Assessment</b></p> <p>It is <b>not auditor's responsibility to rectify lack of analysis</b> by Mgt. Lack of assessment by Mgt <b>may not</b>, in some cases, prevent auditor from concluding whether Mgt's use of <b>GC</b> is appropriate. Evaluating Mgt's assessment may include -</p> <ul style="list-style-type: none"> <li>• <b>Mgt's plans</b> for future action &amp; if its <b>feasible</b></li> <li>• Evaluating <b>Mgt process</b> to make assessment</li> <li>• <b>Assumptions</b> on which assessment is based</li> <li>• If Mgt's assessment <b>covers &lt; 12 months</b> from date of FS, auditor shall request Mgt to <b>extend its assessment to at least 12 months</b></li> </ul>
<p><b>Additional procedures when events or conditions are identified</b></p> <p>Auditor shall <b>obtain SAAE</b> to determine if <b>material uncertainty exist</b> that cast <b>significant doubt</b> on entity ability to <b>continue as GC</b> including-</p> <ul style="list-style-type: none"> <li>• Where <b>Mgt</b> has <b>not yet performed assessment</b>, requesting Mgt to assess</li> <li>• Evaluating <b>Mgt's future plans</b> &amp; if its <b>feasible</b></li> <li>• Where entity has prepared <b>cash flow forecast &amp; analysis</b> of forecast is significant- <ul style="list-style-type: none"> <li>○ Evaluating <b>reliability</b> of underlying <b>data</b></li> <li>○ Determine adequate <b>support for assumption</b></li> </ul> </li> <li>• Considering if <b>additional info are available</b> since date when Mgt made its assessment</li> <li>• <b>Requesting WR</b> from Mgt &amp; TCWG, regarding their <b>plans for future actions</b></li> </ul>	<p><b>Disclosures when events or conditions have been identified &amp; material uncertainty exists</b></p> <p>Auditor shall determine whether FS -</p> <ul style="list-style-type: none"> <li>• <b>Adequately disclose</b> such events or conditions &amp; <b>Mgt's plans</b> to deal with them</li> <li>• <b>Disclose clearly</b> that there is <b>material uncertainty</b> related to events or conditions</li> <li>• Above Disclosures include - <ul style="list-style-type: none"> <li>○ Mgt's <b>evaluation of significance of events</b> of entity's ability to <b>meet its obligations</b></li> <li>○ <b>Significant judgments</b> by Mgt as <b>part of assessment</b> of ability to continue as <b>GC</b></li> <li>○ <b>Magnitude of potential impact</b> of event or condition, <b>likelihood &amp; timing</b> of occurrence</li> </ul> </li> </ul> <p><b>Disclosures when events or conditions have been identified but no material uncertainty exists</b></p> <p>Auditor shall evaluate if FS provide <b>adequate disclosures</b> about these events or conditions</p>

<p><b>Communication with TCWG</b>  <b>Events or conditions</b> identified that may cast <b>significant doubt</b> on entity's ability to continue as <b>GC</b></p> <p><b>Significant Delay in Approval of FS</b></p> <ul style="list-style-type: none"> <li>• If there is delay in approval of FS after date of FS, auditor shall <b>inquire as to reasons</b> for delay.</li> <li>• If auditor believes that <b>delay is related to events or conditions</b> of GC assessment, auditor shall <b>perform above additional procedures</b> &amp; consider effect on auditor's conclusion</li> </ul>	
<p><u><b>Implications for auditor's report</b></u></p>	
<ul style="list-style-type: none"> <li>• <b>Mgt unwilling to make or extend its assessment</b> - <b>Qualified or Disclaimer</b> of opinion</li> <li>• <b>If use of GC basis is inappropriate</b> - If FS have been <b>prepared using GC</b> but, in auditor's <b>judgment</b>, Mgt's use of GC is inappropriate, auditor shall express <b>adverse opinion (irrespective of whether Mgt has itself disclosed about this inappropriateness)</b></li> <li>• <b>If use of GC is appropriate but material uncertainty exists</b> - (2 Cases as Below)</li> </ul>	
<p><b>Case 1 - Adequate Disclosure of Material Uncertainty is made in FS</b>  Express <b>unmodified opinion</b> &amp; report shall include separate section under heading "<b>Material Uncertainty Related to GC</b>" to -</p> <ul style="list-style-type: none"> <li>• <b>Draw attention</b> to note in FS that discloses such matters</li> <li>• <b>State</b> that these <b>events or conditions indicate that material uncertainty</b> exists &amp; auditor's <b>opinion is not modified</b> for matter</li> </ul>	<p><b>Case 2 - Adequate Disclosure of Material Uncertainty is Not Made in FS</b></p> <ul style="list-style-type: none"> <li>• Express <b>qualified</b> opinion or <b>adverse</b> opinion</li> <li>• In Basis for Qualified (Adverse) Opinion section, state that <b>material uncertainty exists</b> &amp; that <b>FS do not adequately disclose</b> this matter</li> </ul>
<p><u><b>Eg of events or conditions that may cast significant doubt on entity's ability to continue as GC</b></u></p>	
<p><b>Financial events or conditions</b></p> <ul style="list-style-type: none"> <li>• Net liability or net current liability position</li> <li>• Fixed-term borrowings approaching maturity without prospects of renewal or reliance on short-term borrowings for long-term assets</li> <li>• Inability to comply with terms of loan</li> <li>• Indications of withdrawal of financial support by creditors</li> <li>• Inability to pay creditors on due dates</li> <li>• Inability to obtain financing for new product development or other essential investments</li> <li>• Negative operating cash flows indicated by historical or prospective FS</li> <li>• Adverse key financial ratios</li> </ul>	<p><b>Operating events or conditions</b></p> <ul style="list-style-type: none"> <li>• Mgt intention to liquidate/to cease operations</li> <li>• Loss of key mgt without replacement</li> <li>• Labour difficulties</li> <li>• Shortages of important supplies</li> <li>• Loss of major market, key customer(s), franchise, license, or principal supplier(s)</li> <li>• Emergence of a highly successful competitor</li> </ul> <p><b>Other events or conditions</b></p> <ul style="list-style-type: none"> <li>• Changes in law or regulation expected to adversely affect entity</li> <li>• Non-compliance with regulatory requirements</li> <li>• Pending legal proceedings that may result in claims, entity is unlikely to be able to satisfy</li> <li>• Uninsured or underinsured catastrophes</li> </ul>

WR is **written statement** by Mgt provided to auditor to **confirm certain matters** or to **support** other audit evidence. It do not include FS, assertions or supporting books

### WR as audit evidence

- WR is **necessary evidence**. If auditor has **obtained WR** about a specific assertion **during audit**, it may be necessary to **request updated WR**
- Although WR provide audit evidence, they **do not provide SAAE on their own**. Fact that Mgt has provided reliable WR **does not affect nature of audit evidence** that auditor obtains

<p><b>WR about Mgt's responsibilities - involves -</b></p> <ul style="list-style-type: none"> <li>• <b>Preparation of FS</b> - Mgt may include <b>qualifying language</b> that WR is to <b>best of its knowledge &amp; belief</b>. Auditor may <b>accept</b>, if he is <b>satisfied</b> that WR is made by those with <b>appropriate responsibilities &amp; knowledge</b></li> <li>• <b>Info provided &amp; completeness of transactions</b> - Auditor shall WR that - <ul style="list-style-type: none"> <li>○ Mgt has provided auditor with <b>all info &amp; access</b> as agreed in terms of engagement</li> <li>○ <b>All transactions</b> have been <b>recorded</b> &amp; are <b>reflected</b> in FS</li> </ul> </li> </ul> <p><b>Why WR for Mgt responsibilities are necessary?</b>  <b>Evidence</b> obtained during audit is <b>not sufficient</b> without confirmation from Mgt. Because auditor is <b>not able to judge solely</b> on other evidence if Mgt has <b>fulfilled its responsibility</b>  Auditor may ask Mgt to <b>reconfirm acknowledgement &amp; understanding</b> of those responsibilities in WR <b>in subsequent years</b> when -</p> <ul style="list-style-type: none"> <li>• <b>Terms</b> were prepared in <b>previous year</b></li> <li>• Changes in <b>circumstances</b></li> <li>• Those who signed terms of engagement <b>no longer have relevant responsibilities</b></li> <li>• There is any <b>indication</b> that <b>Mgt misunderstands</b> those responsibilities</li> </ul> <p><b>Description of Mgt's responsibilities in WR</b>  It should be in manner <b>same as</b> these are described <b>in terms of engagement</b></p>	<p><b>Date of WR</b></p> <ul style="list-style-type: none"> <li>• Date shall be <b>as near as practicable</b> to, but not after, <b>date of report</b> on FS</li> <li>• Because <b>WR is necessary evidence</b>, <b>report cannot</b> be dated, <b>before</b> date of <b>WR</b></li> <li>• Because auditor is concerned with <b>events occurring up to date of report</b></li> </ul> <p><b>Period covered by WR</b></p> <ul style="list-style-type: none"> <li>• WR shall be for <b>all FS period</b> as Mgt needs to <b>reaffirm</b> that WR it made remain <b>appropriate</b></li> <li>• When <b>current Mgt was not present</b> during all periods. This fact does not diminish responsibilities for FS as a whole</li> <li>• Accordingly, <b>above requirement still applies</b></li> </ul> <p><b>Form of WR</b></p> <ul style="list-style-type: none"> <li>• WR shall be <b>rep letter</b> addressed to auditor</li> <li>• If L&amp;R requires <b>Mgt</b> to make <b>written public statements</b> &amp; auditor determines that such statements <b>provide WR required for Mgt responsibilities</b>, then they <b>need not be included</b> in representation letter</li> </ul> <p><b>Doubt as to reliability of WR</b></p> <ul style="list-style-type: none"> <li>• If WR is <b>inconsistent with other evidence</b>, auditor shall attempt to <b>resolve matter</b></li> <li>• If matter <b>remains unresolved</b>, auditor shall <b>reconsider</b> assessment of <b>competence, integrity, ethical values</b> of Mgt &amp; effect on reliability of <b>WR &amp; audit evidence</b> in general</li> <li>• If auditor conclude that <b>WR is not reliable</b>, auditor shall take appropriate <b>actions</b>, including <b>Disclaimer</b> of opinion</li> </ul>
<p><b>Requested WR not provided - Auditor shall -</b></p> <ul style="list-style-type: none"> <li>• <b>Discuss matter</b> with Mgt</li> <li>• <b>Re-evaluate integrity</b> of Mgt &amp; effect on reliability of <b>WR &amp; audit evidence</b> in general</li> <li>• Take appropriate <b>actions</b>, including <b>requirement of disclaimer</b> of opinion</li> </ul>	