# Implementation Guide to Standard on Auditing (SA) 560, Subsequent Events

The Institute of Chartered Accountants of India
*(Set up by an Act of Parliament)*
New Delhi

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# **Subsequent Events**

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# Foreword

Standards on Auditing prescribe the fundamental principles of audit to be followed by auditors in their audit engagements. It is essential that auditors must understand and implement these Standards appropriately in their audit engagements. The Implementation Guides to Standards on Auditing are important resource for auditors to understand the specific requirements of these Standards and help them in effective implementation of these Standards.

The Auditing and Assurance Standards Board (AASB) of ICAI has been issuing a number of Implementation Guides to various Standards on Auditing for the benefit of auditors. I am happy that the Board has brought out this Implementation Guide to Standard on Auditing (SA) 560, "Subsequent Events" which is quite comprehensive and written in simple language in the form of frequently asked questions (FAQs).

I wish to compliment CA. G. Sekar, Chairman, CA. Shriniwas Y. Joshi, Vice Chairman and other members of the Auditing and Assurance Standards Board for their efforts in bringing out this Implementation Guide and taking various other initiatives to help the members in effective implementation of Standards on Auditing.

I am sure that the members and other interested readers would find the Implementation Guide immensely useful.

December 29, 2021 **CA. Nihar N. Jambusaria**

New Delhi President, ICAI

# Preface

Over the years, the Auditing and Assurance Standards Board (AASB) of ICAI has been taking various initiatives to help the Chartered Accountants in successful and proper implementation of Standards on Auditing. These initiatives include issuing Implementation Guides to various Standards on Auditing to help the Chartered Accountants in practical implementation of these Standards in real life audit situations.

We are happy to place in hands of the members, this Implementation Guide to SA 560,”Subsequent Events” brought out by AASB. The Implementation Guide has been written in simple and easy to understand language in a “Question–Answer” format containing frequently asked questions (FAQs) on SA 560 and responses to those FAQs. The aim of the Implementation Guide is to provide appropriate guidance to the auditors to enable them to discharge their responsibilities effectively under SA 560.

We are extremely grateful to CA. Bhavani Balasubramanian, Chennai and her team comprising CA. Rakesh Purohit, CA. M B Vignesh Karthick and CA. Bhavya Balasubramanian for sparing time out of their other preoccupations to write this Implementation Guide.

We would like to thank our Honourable President, CA. Nihar N. Jambusaria and Honourable Vice-President, CA. (Dr.) Debashis Mitra for their guidance and support in various endeavours of the Board.

We wish to place on record high appreciation of all members of the Board for their active contribution in finalising this Implementation Guide and other pronouncements of the Board.

We also wish to thank CA. Megha Saxena, Secretary, AASB and staff of AASB for their technical and other contribution in finalising this Implementation Guide.

We are confident that the Implementation Guide would be well received by the members and other interested readers.

**CA. Shriniwas Y. Joshi**
Vice Chairman, AASB

**CA. G. Sekar**
Chairman, AASB

# Contents

# Chapter 1
# Introduction and Overview

1.1 The purpose of this Implementation Guide is to provide practical guidance on implementation of the principles laid down in Standard on Auditing (SA) 560, “Subsequent Events” (hereinafter referred as “the Standard”). The Standard is effective for audits of financial statements for periods beginning on or after April 1, 2009.

1.2 The Standard deals with the auditor’s responsibilities relating to subsequent events in an audit of financial statements. It does not deal with matters relating to the auditor’s responsibilities for other information obtained after the date of the auditor’s report, which are addressed in SA 720(Revised), “The Auditor’s Responsibilities Relating to Other Information”. However, such other information may bring to light a subsequent event that is within the scope of this SA.

### 1.3 Objectives of the Auditor

- The objectives of the auditor are to:
  - Obtain sufficient appropriate audit evidence about whether 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 are appropriately reflected in those financial statements; and
  - Respond appropriately to facts that become known to the auditor after the date of the auditor’s report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor’s report.

## 1.4 Requirements given in the Standard cover the following scenarios

**Paragraphs 6 to 9 of the Standard** talk about the procedures required to be performed by an auditor when there are *Events Occurring Between the Date of the Financial Statements and the Date of the Auditor's Report.*

**Paragraphs 10 to 13 of the Standard** talk about the procedures required to be performed by an auditor when there are *Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued.*

**Paragraphs 14 to 17 of the Standard** talk about the procedures required to be performed by an auditor when there are *Facts Which Become Known to the Auditor After the Financial Statements have been Issued.*

## 1.5 Structure of the Standard

The Standard can be broadly divided into two separate parts as under:

Part 1: Introduction, Objectives and Definitions (paragraphs 1 to 5)

Part 2: Procedural requirements to be followed by auditors under different scenarios along with Application and Other Explanatory Material (paragraphs 6 to 17 and paragraphs A1 to A20)

## 1.6 Part 1: Introduction, Objectives and Definitions

This part covers paragraphs 1 to 5 which deal with the following:

- **Scope of this Standard:** Responsibilities of the auditor relating to subsequent events in an audit of financial statements.
- **Exclusion from the Standard.**
- **Effective date of the Standard.**

- **Objectives of the Auditor:** Obtaining sufficient appropriate audit evidence and responding appropriately to the facts.
- **Definitions dealt with in the Standard include:**
  - (a) Date of the financial statements
  - (b) Date of approval of the financial statements
  - (c) Date of the auditor's report
  - (d) Date the financial statements are issued
  - (e) Subsequent events

## 1.7 Part 2: Procedural Requirements to be followed by auditors under different scenarios

This part covers paragraphs 6 to 17 along with the corresponding application guidance paragraphs A1 to A20. This part provides the procedural requirements along with the explanation for the following scenarios:

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

Procedures include discussions with management, understanding of the approach made by management to ensure subsequent events are identified, reading the subsequent meeting's minutes and reading the entity's latest subsequent interim financial statements. Each of the scenarios will be explained in detail in the subsequent sections.

Application and Other Explanatory Material include certain illustrations for the above mentioned scenarios with conceptual explanation on dual dating and auditor's action to seek to prevent reliance on auditor's report in certain cases. Moreover, this section also deals with Material Modifications *vis-a-vis* "ISA 560 Subsequent Events".

# Chapter 2
# Implementation Guidance

## Given below are the responses on key issues of SA 560 in a Question–Answer format

**Question 1: What are the different types of events identified by financial reporting framework which are dealt with in the Standard?**

***Response*:** The Standard deals with the following events after the date of the financial statements:

1. Those events that provide evidence of conditions that existed at the date of the financial statements which would result in adjustment being carried out in the financial statements; and

2. Those events that provide evidence of conditions that arose after the date of the financial statements which would not require carrying out any adjustments in the financial statements but would require adequate disclosures.

**Question 2: How does the Standard define the term "*Subsequent Events"*?**

***Response*:** Subsequent events are 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.

The requirement to evaluate the implication of subsequent events exists under the accounting framework as well. However, it might be possible that the scope of the requirement under the accounting framework is different than that envisaged under SA 560 e.g. Ind AS 10, "Events After the Reporting Period" defines events after the reporting period as those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. This definition therefore includes events that provide additional evidence about conditions that existed at the end of the reporting period, as well as those that do not. The former are adjusting events, the latter are non-adjusting events. Hence, it might be noted that under Ind AS, the assessment of subsequent events is limited to the date when the financial statements are authorised for issue whereas the ambit of SA 560 is wider and covers facts that become known to the auditor after the date of the auditor's report.

**Question 3: Does the Standard have any exclusion?**

***Response*:** Yes, the Standard does not deal with matters relating to the auditor's responsibilities for other information obtained after the date of the auditor's report, which are addressed in SA 720(Revised). However, such other information may bring to light a subsequent event that is within the scope of this Standard. (Refer FAQ 4)

**Question 4: What are the other information covered under this Standard as mentioned in FAQ 3?**

***Response*:** When the audited financial statements are included in other documents subsequent to the issuance of the financial statements (other than annual reports that would be within the scope of SA 720(Revised)), the auditor may have additional responsibilities relating to subsequent events that the auditor may need to consider, such as legal or regulatory requirements involving the offering of securities to the public in jurisdictions in which the securities are being offered. For example, the auditor may be required to perform additional audit procedures to the date of the final offering document. These procedures may include those referred to in FAQ 8 and 9 performed up to a date at or near the effective date of the final offering document, and reading the offering document to assess whether the other information in the offering document is consistent with the financial information with which the auditor is associated.

**Question 5: What are the objectives enlisted for the auditor to achieve by way of applying this Standard?**

***Response*****:** The Standard provides the following objectives:

- Obtain sufficient appropriate audit evidence about whether 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 are appropriately reflected in those financial statements; and
- Respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.

**Question 6: How does the Standard define the term "*Date the financial statements are issued"*?**

***Response*****:** The date that the auditor's report and audited financial statements (including the financial results, Balance Sheet, Statement of Profit and Loss, Statement of Cash flows, Statement of Changes in Equity and notes forming part of the accounts) are made available to third parties.

Third parties would indicate a wide range of stakeholders e.g. bankers, shareholders, etc.

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."

The following examples (only illustrative) may be considered to further explain the concept of 'date the financial statements are issued'. To explain this, it is important to understand what one means by 'available to third parties'?

a) In the case of listed (equity, debt, any security) entities which publish annual audited financial results based on underlying annual audited financial statements / annual audited financial information, the date of submission of the results to the stock exchanges will be considered as the date the financial statements are issued, irrespective of when the notice calling for the annual general meeting, Board report and the full set of financial statements with all the notes and disclosures are subsequently issued to the shareholders.

b) The date the financial statements are issued could also be the date when the auditor's report and the audited financial statements are provided (after the date of the board meeting which approved for adoption of the aforesaid audited financial statements by the shareholders and once the financial statements are adopted by the shareholders in the annual general meeting) to any third party (for example: lenders, creditors, bid documents).

c) In all other cases, the date the financial statements are issued would be the date when the notice calling for annual general meeting is sent to the shareholders along with the Board report and the auditor's report and audited financial statements.

**Question 7: How does the Standard define the term "*Date of approval of the financial statements*"?**

***Response*:** The date on which all the statements as required under the relevant statute that comprise the financial statements, including the related notes, have been prepared and those with the recognised authority (those charged with governance) have asserted that they have taken responsibility for those financial statements.

In case of companies, usually this is the date when the Board of Directors approve the financial statements as per provisions of the Companies Act, 2013.

**Question 8: What are the requirements of the Standard for the scenario "*Events Occurring Between the Date of the Financial Statements and the Date of the Auditor's Report*"?**

***Response*:** 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.

If there are any changes observed that require adjustments in financial statements, then evidences such as working papers, calculations, mail approvals can be obtained to demonstrate the sufficient appropriate audit evidence.

**Question 9: Enlist few illustrative procedures to be performed for the scenario "*Events Occurring Between the Date of the Financial Statements and the Date of the Auditor's Report*"?**

***Response*:** The auditor shall perform the procedures required by FAQ 8 so that they cover the period from the date of the financial statements to the date of the auditor's report, or as near as practicable thereto. The auditor shall take into account the auditor's risk assessment in determining the nature and extent of such audit procedures, which shall include the following:

(a) Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.

(b) Inquiring of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements.

(c) Reading minutes, if any, of the meetings, of the entity's owners, management and those charged with governance, that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available.

(d) Reading the entity's latest subsequent interim financial statements, if any.

(e) Read the entity's latest available budgets, cash flow forecasts and other related management reports for periods after the date of the financial statements.

(f) Inquire, or extend previous oral or written inquiries, of the entity's legal counsel concerning litigation and claims.

(g) Consider whether written representations covering particular subsequent events may be necessary to support other audit evidence and thereby obtain sufficient appropriate audit evidence.

**Question 10: Explain the need of "written representations" in audit of subsequent events?**

***Response*:** The auditor shall request management and, where appropriate, those charged with governance, to provide a written representation in accordance with SA 580, "Written Representations" that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

**Question 11: Is there a difference in the requirements if a matter is identified before or after the date of the audit report?**

***Response*:** SA 560 provides a different approach if a matter has been identified before or after the date of the audit report.

As per SA 560, the auditor is required to **perform audit procedures** such 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. After the date of the audit report, the auditor has no obligation to perform **any audit procedures**. However, if the **auditor becomes aware of any fact (**had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report)**,** SA 560 casts certain obligations on the auditor as stated in FAQ 12.

Accordingly, prior to the date of the audit report, the auditor is required to assess the implications of the events whereas after the date of the audit report the auditor is required to assess the implications of any fact (as stated above) which becomes known to the auditor.

**Question 12: In the scenario of *"Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued"* does the auditor has any obligation?**

***Response*:** 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 the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report and not situation arising from developments occurring after the date of audit report, may have caused the auditor to amend the auditor's report, the auditor shall:

(a) Discuss the matter with management and, where appropriate, those charged with governance.

(b) Determine whether the financial statements need amendment and, if so,

(c) Inquire how management intends to address the matter in the financial statements.

**Question 13: Under the scenario "*Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued"* what are the audit procedures required to be performed if the management intends to amend the financial statements?**

***Response*:** If management amends the financial statements, the auditor shall:

(a) Carry out the audit procedures necessary in the circumstances on the amendment.

(b) Unless the circumstances in paragraph 12 of SA 560 apply, extend the audit procedures referred to in FAQ 8 and 9 to the date of the new auditor's report; and

(c) Provide a new auditor's report on the amended financial statements. The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.

**Question 14: Under the scenario "*Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued*" and management intends to amend the financial statements, how an auditor can address this issue in his audit report?**

***Response:*** When law, regulation or the financial reporting framework does not prohibit management from restricting the amendment of the financial statements to the effects of the subsequent events or events causing that amendments and those responsible for approving the financial statements are not prohibited from restricting their approval to that amendment, the auditor is permitted to restrict the audit procedures on subsequent events to that amendment. In such cases, the auditor shall either:

(a) Amend the auditor's report to include an additional date restricted to that amendment that thereby indicates that the auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements described in the relevant note to the financial statements; or (refer FAQ 21 which explains 'dual dating' and provides an illustrative note)

(b) Provide a new or amended auditor's report that includes a statement in an Emphasis of Matter paragraph or Other Matter(s) paragraph that conveys that auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements as described in the relevant note to the financial statements.

**Question 15: Under the scenario "*Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued"* what is the auditor's responsibility if the management does not amend the financial statements?**

***Response*:** In some entities, management may not be required by the applicable law, regulation or the financial reporting framework to issue amended financial statements and, accordingly, the auditor need not provide an amended or new auditor's report. However, when management does not amend the financial statements in circumstances where the auditor believes that the financial statements need to be amended, then:

(a) If the auditor's report has not yet been provided to the entity, then the auditor shall modify the opinion as required by SA 705(Revised) and then provide the auditor's report; or

(b) If the auditor's report has already been provided to the entity, the auditor shall notify management and, unless all of those charged with governance are involved in managing the entity, those charged with governance, not to issue the financial statements to third parties before the necessary amendments have been made. If the financial statements are nevertheless subsequently issued without the necessary amendments, the auditor shall take appropriate action as mentioned below, to seek to prevent reliance on the auditor's report.

The auditor should take the following steps to the extent applicable:

(a) Notification to the client that the auditor's report should no longer be associated with the financial statements.

(b) Notification to regulatory agencies having jurisdiction over the client that the auditor's report should no longer be relied upon.

(c) Notification to each person known to the auditor to be relying on the financial statements that his report should no longer be relied upon. In many instances, it will not be practicable for the auditor to give appropriate individual notification to shareholders or investors at large, whose identities ordinarily are unknown to him; notification to a regulatory agency having jurisdiction over the client will usually be the only practicable way for the auditor to provide appropriate disclosure. Such notification should be accompanied by a request that the agency take whatever steps it may deem appropriate to accomplish the necessary disclosure which would typically be by way of press release.

(d) The auditor may consider seeking legal advice on matters including those relating to the provisions of Companies Act, 2013.

(e) Revoke UDIN (Refer FAQ 27).

**Question 16: What are the actions required from auditor to prevent reliance on auditor's report under the scenario "*Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued"*?**

***Response*:** The auditor may need to fulfill additional legal obligations even when the auditor has notified management not to issue the financial statements and management has agreed to this request.

But, when the management has issued the financial statements despite the auditor's notification not to issue the financial statements to third parties, 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.

**Question 17: In the scenario of *"Facts Which Become Known to the Auditor After the Financial Statements have been Issued"* does the auditor has any obligation?**

***Response*:** After the financial statements have been issued, the auditor has no obligation to perform any audit procedures regarding such financial statements.

However, when, after the financial statements have been issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report and not the situation arising from developments occurring after the date of audit report, may have caused the auditor to amend the auditor's report, the auditor shall:

(a) Discuss the matter with management and, where appropriate, those charged with governance.

(b) Determine whether the financial statements need amendment and, if so,

(c) Inquire how management intends to address the matter in the financial statements.

**Question 18: Under the scenario "*Facts Which Become Known to the Auditor After the Financial Statements have been Issued"* what are the audit procedures required to be performed if the management intends to amend the financial statements?**

***Response*****:** If management amends the financial statements, the auditor shall:

(a) Carry out the audit procedures necessary in the circumstances on the amendment.

(b) 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.

(c) Unless the circumstances in paragraph 12 of SA 560 apply, extend the audit procedures referred to in FAQ 8 and FAQ 9 to the date of the new auditor's report; and

(d) Provide a new auditor's report on the amended financial statements. The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.

(e) When the circumstances in paragraph 12 of SA 560 apply, amend the auditor's report, or provide a new auditor's report as required by paragraph 12 of SA 560.

The auditor shall include in the new or amended auditor's report an Emphasis of Matter paragraph or Other Matter(s) paragraph referring to a note to the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and to the earlier report provided by the auditor.

**Question 19: Under the scenario "*Facts Which Become Known to the Auditor After the Financial Statements have been Issued*" what are the audit procedures required to be performed if the management does not amend the financial statements?**

***Response*:** If management does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements is informed of the situation and does not amend the financial statements in circumstances where the auditor believes they need to be amended, the auditor shall notify management and, unless all of those charged with governance are involved in managing the entity, those charged with governance, that the auditor will seek to prevent future reliance on the auditor's report. If, despite such notification, management or those charged with governance do not take these necessary steps, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report.

The auditor should take the following steps to the extent applicable:

(a) Notification to the client that the auditor's report should no longer be associated with the financial statements.

(b) Notification to regulatory agencies having jurisdiction over the client that the auditor's report should no longer be relied upon.

(c) Notification to each person known to the auditor to be relying on the financial statements that his report should no longer be relied upon. In many instances, it will not be practicable for the auditor to give appropriate individual notification to shareholders or investors at large, whose identities ordinarily are unknown to him; notification to a regulatory agency having jurisdiction over the client will usually be the only practicable way for the auditor to provide appropriate disclosure. Such notification should be accompanied by a request that the agency take whatever steps it may deem appropriate to accomplish the necessary disclosure which would typically be by way of press release.

(d) The auditor may consider seeking legal advice on matters including those relating to the provisions of Companies Act, 2013.

(e) Revoke UDIN (Refer FAQ 27).

**Question 20: Is there any exception for the management from amending the financial statements pursuant to a subsequent event?**

***Response*:** SA 560 provides a practical expedient for the management from amending the financial statements. Paragraph A14 of SA 560 states that in some entities, management may not be required by the applicable law, regulation or the financial reporting framework to issue amended financial statements. This is often the case when issuance of the financial statements for the following period is imminent, provided appropriate disclosures are made in such statements.

Accordingly, where the issuance of the financial statements for the succeeding period is imminent management may not revise the previously issued financial statements which require amendment due to a subsequent event. For example, financial statements for financial year 2019-2020 may not be amended if the issuance of financial statements of financial year 2020-2021 is imminent and the amendment is in accordance with the requirements of SA 560.

**Question 21: Explain "Dual Dating" and indicate an illustrative note of additional date?**

***Response*:** 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.

The purpose of dual dating is twofold:

(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.

When the auditor amends the auditor's report to include an additional date restricted to amendment of financial statements by management, the date of the auditor's report on the financial statements prior to their subsequent amendment by management remains unchanged because this date informs the reader as to when the audit work on those financial statements was completed.

However, an additional date is included in the auditor's report to inform users that the auditor's procedures subsequent to that date were restricted to the subsequent amendment of the financial statements.

The following is an illustration of such an additional date which could be added in line with the requirements of Revised SA 700/705/706 (as applicable):

"(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)".

**Question 22: Explain "Inquiry" as a procedure to be performed for assessing the impact of subsequent events with illustrative questions to be asked?**

***Response*****:** In inquiring of management and, where appropriate, those charged with governance, as to whether any subsequent events have occurred that might affect the financial statements, the auditor may inquire as to the current status of items that were accounted for on the basis of preliminary or inconclusive data and may make specific inquiries about the following matters:

- Whether new commitments, borrowings or guarantees have been entered into.
- Whether sales or acquisitions of assets have occurred or are planned.
- 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 any assets have been appropriated by government or destroyed, for example, by fire or flood.
- Whether there have been any developments regarding contingencies.
- Whether any unusual accounting adjustments have been made or are contemplated.
- Whether any events have occurred or are likely to occur that will bring into question the appropriateness of accounting policies used in the financial statements, as would be the case, for example, if such events call into question the validity of the going concern assumption.
- Whether any events have occurred that are relevant to the measurement of estimates or provisions made in the financial statements.
- Whether any events have occurred that are relevant to the recoverability of assets.
- Whether any GST reconciliation entry or credit availed entry has been passed after the books finalized.
- Change in capital structure.

Where considered necessary, the auditor may also obtain written representations to this effect in accordance with SA 580, "Written Representations".

Further, the auditor should also document the enquiry procedures and management responses thereof, along with the date of the inquiry, persons from whom the auditor has enquired, and also include written representations where obtained.

**Question 23: How are the auditor's responsibilities in relation to obtaining sufficient appropriate audit evidence about subsequent events impacted by any pandemic or unforeseen circumstances?**

***Response:*** SA 700(Revised), "Forming an Opinion and Reporting on Financial Statements" stipulates that the date of the auditor's report informs the user of the auditor's report that the auditor has considered the effects of events and transactions of which the auditor becomes aware and that occurred up to that date. Therefore, it is important for the auditor to obtain an understanding of subsequent events and how these have been dealt with in the financial statements.

Auditors are required to perform procedures designed to obtain sufficient appropriate audit evidence that all events requiring adjustment of, or disclosure in, the financial statements, occurring between the date of the financial statements and the date of the auditor's report, have been identified and appropriately reflected in the financial statements in accordance with the applicable financial reporting framework (please refer paragraphs 6–8 of SA 560).

Reference should also be made to paragraph A66 of SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures" which requires the auditor to 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 and appropriately reflected in the financial statements. Because the measurement of many accounting estimates, other than fair value accounting estimates, usually depends on the outcome of future conditions, transactions or events, the auditor's work under SA 560 is particularly relevant.

In undertaking work to be responsive to the auditor's risk assessment pertaining to subsequent events, including reasons related to the impact of a pandemic, the auditor considers management's adjustments or disclosures, including the timelines used to distinguish between adjusting and non-adjusting events. In addition, this includes the impact of the changes in the environment on the recognition and measurement of account balances and transactions in the financial statements (if adjusting), or other specific disclosures (if non-adjusting).

It is important to consider the effects of a pandemic 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.

**Question 24: What are the factors to be kept in mind considering any pandemic Situation?**

***Response:*** The following are examples of events or conditions that may be affected by, or exist as a result of a pandemic involving unforeseen circumstances, 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. (also refer paragraphs A7–A10 of SA 560)

- 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 (e.g., supplier, customer etc.) thereby impacting the supply chain / availability of customers for the entity's products.
- Recent or planned sales or acquisitions of assets as a result of the pandemic.
- Increases in capital or issuance of debt instruments, such as the issue of new shares or debentures, or an agreement to merge or liquidate that has been made or is planned.
- Expected credit loss provisioning – where there are customers situated in countries affected by pandemic and

where they have filed for liquidation post the entity's year-end will impact the collectability of the trade receivables.

- Probability of meeting performance vesting conditions under share-based payment arrangements and the appropriate accounting for modifications or settlements of such arrangements.
- Relief or economic stimulus payments provided by the government in the form of loans or grants (e.g. MSME sectors receiving grants on account of COVID-19 pandemic). It is important to understand the nature of the stimulus, conditions to be complied by entities, etc. Many of the concessions have dates attached and entities need to be cognizant of those as they determine impact on the financial statements.
- Any developments regarding contingencies (for example, new contingent liabilities or circumstances affecting the evaluation of existing contingent liabilities, the ability to meet agreed-on performance targets for contingent consideration in business combination arrangements, etc.).
- Any unusual accounting adjustments that have been made or are contemplated, such as additional or revised closing entries.
- Any events that will bring into question the appropriateness of accounting policies and assumptions used in the financial statements (e.g. events call into question the validity of the going concern assumption, expected credit loss model, inventory obsolescence, useful lives of PPE etc.).
- Any events that are relevant to the measurement of estimates or provisions made in the financial statements. Examples include derivative and hedging considerations (e.g. where a forecast transaction is no longer highly probable), insurance claims (e.g. whether it is virtually certain that amounts are receivable under business interruption and/or other insurance and the potential disclosure of contingent assets), rebate arrangements with customers or suppliers, variable consideration, commission accruals, etc.).
- Any events that are relevant to the recoverability of assets, ongoing pertinence of business and valuation assumptions, valuation of plan assets.

- Modification of existing contractual arrangements (e.g. reduction or deferral of lease payments granted by a lessor to a lessee, modifications to debt terms, etc.).
- Tax considerations (e.g. impact of reduced flow of goods and services on transfer pricing agreements; recoverability of deferred tax assets).
- Employee termination benefits resulting from a workforce reduction (e.g. as a result of closure or reorganization of operations that occurred after the reporting date). This may be a contrary evidence in a situation where an entity is forecasting expansion in business in the subsequent year(s).
- Some industries are more impacted than others e.g. entities in the aviation sector (and therefore entities that are feeder industries to entities in the aviation sector), real estate, construction, retail, tourism, hospitality, transportation, financing, infrastructure sectors. In such industries, it is critical for management to assess the impact of events occurring after the balance sheet date on the financial statements.
- Impact on realizable values of inventory of a short-term nature in case of inability to sell the products during the period of lockdown.
- Indications of diminution (impairment) other than temporary in the value of investments in companies whose businesses have been severely affected by the pandemic.
- Any other significant events which would raise doubts over the entity's ability to continue as a going concern in accordance with SA 570(Revised), "Going Concern".

**Question 25: Are audit procedures required if the events of a pandemic or other catastrophe (like COVID-19) became known to the auditor after the date of the auditor's report?**

***Response:*** The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report (either before or after the date the financial statements are issued), unless a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend his report.

Paragraphs 10 to 17 of SA 560 address the auditor's responsibilities when facts become known to the auditor after the date of the auditor's report.

**Question 26: How do the results of the auditor's procedures on subsequent events impact the auditor's report?**

***Response:*** If, based on the results of the audit procedures performed, the auditor determines that the financial statements are materially misstated, or is unable to obtain sufficient appropriate audit evidence to determine whether the financial statements are materially misstated, a modification to the opinion in the auditor's report is required in accordance with paragraph 6 of SA 705(Revised), "Modifications to the Opinion in the Independent Auditor's Report".

If the auditor is able to obtain sufficient appropriate audit evidence about subsequent events as required in terms of SA 560, he may or may not consider it appropriate to identify the subsequent event as a Key Audit Matter in accordance with paragraphs 9-10 of SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report" or he may or may not determine it to be necessary to draw users' attention to the subsequent event through inclusion of an Emphasis of Matter paragraph or Other Matter paragraph in accordance with paragraphs 8-11 of SA 706(Revised), "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report".

**Question 27: When the auditor is required to amend his audit report, whether auditor is required to cancel the UDIN related to earlier audit report issued by him, in case (a) management amends the financial statements and (b) management does not amend the financial statements?**

***Response:***

*Case (a) – When the management amends the financial statements*

In this case, the auditor has to issue a new audit report and thereby the UDIN used for the earlier audit report needs to be revoked in accordance with the FAQs on Unique Document Identification Number (UDIN) for Practicing Chartered Accountants issued by ICAI, wherein the UDIN once generated can be revoked or cancelled with narration. UDIN can be revoked on clicking revoke UDIN. The UDIN to be revoked is to be selected from the list. Assign the reason for revocation. Submit through OTP.

*Case (b) – When the management does not amend the financial statements*

Even in this case, the UDIN needs to be revoked because the auditor has to take the necessary steps to prevent the reliance on the auditor's report (Refer FAQ 19), by following the procedure mentioned in the above case.

**Question 28: Is the auditor required to inquire into subsequent events related to changes in internal financial controls over financial reporting (IFCoFR) or other factors that might significantly affect IFCoFR?**

***Response:*** As per paragraph 144 of the "Guidance Note on Audit of Internal Financial Controls Over Financial Reporting" issued by ICAI, changes in internal financial controls over financial reporting or other factors that might significantly affect internal financial controls over financial reporting might occur subsequent to the date as of which internal financial controls over financial reporting is being audited but before the date of the auditor's report. The auditor should inquire of management whether there were any such changes or factors and obtain written representations from management relating to such matters and consider implications, if any, on the audit report (including reporting on IFCoFR).

# Chapter 3
## Illustrative Checklist

| S. No | Particulars | (client management) discussed with | supporting document reference | (auditor) reviewed by | date |
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| 1. | Discuss with management and review the procedures used to ensure that material subsequent events are identified and properly reflected in the financial statements. | | | | |
| 2. | Review minutes of the meetings of partners/ management/ shareholders/ board of directors, and any other relevant committees held after the balance sheet date and inquire about matters discussed at meetings for which minutes are not yet recorded. | | | | |
| 3. | Review and analyse the latest management accounts and other management reports for the period subsequent to the balance sheet date and books of accounts including bank statements for periods for which there are no accounts. | | | | |

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| 4. | Consider the effect of changes or events in the industry or business environment which may have an impact on the reported financial figures. | | | | |
| 5. | Where auditor has expressed any doubts over going concern issues, review specifically the cash flow situation up to the date of auditor's report, forecast cash flow and negotiations in progress to ensure future financing. | | | | |
| 6. | Inquire and discuss with management the following: | | | | |
| | • The current status of items that were accounted for on a preliminary or estimated basis. | | | | |
| | • Whether commitments or litigations, claims and other contingent liabilities existed at the balance sheet date or on the date of inquiry. | | | | |
| | • Whether the sale of assets or operating units has occurred or is planned. | | | | |
| | • Whether there is a change in ownership structure or composition. | | | | |

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| | • Whether any assets of the entity have been expropriated in some way or have been destroyed. | | | | |
| | • Whether there have been significant developments relating to audit areas for which specific risks have been identified. | | | | |
| | • Whether any unusual accounting adjustments have been made or are contemplated. | | | | |
| | • Whether management is aware of any events that have occurred or are likely to occur that bring into question the appropriateness of accounting policies used in preparation and presentation of the financial statements. | | | | |
| 7. | Obtain and review up-to-date information and correspondence concerning litigations and claims against or by the entity, and consider the need to contact directly the client's legal counsel. | | | | |
| 8. | Obtain letter of representation dated the same date as auditor's report from appropriate level of management / TCWG as to whether any events occurred | | | | |

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| | subsequent to the year-end which require an adjustment or disclosure to be made in the financial statements. | | | | |
| 9. | Analyze the additional GST and legal compliances due to revision of timelines by Central Government or State Government. | | | | |
| 10. | Make such additional inquiries and perform such procedures as considered necessary to check for the other subsequent events as identified by audit work. | | | | |

# Chapter 4
# Illustrative Examples

**Illustration 1: A fire broke out on 15 May 2021, in which material worth Rs. 50 lakhs which was lying in inventory since 1st March, 2021 was totally destroyed. The financial statements of the company have not been approved till the date of fire. The management of the company argues 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. As an auditor comment on the above scenario.**

***Response:*** This case requires attention to SA 560 “Subsequent Events”, AS 4 “Contingencies and Events occurring after the Balance Sheet Date” and Ind AS 10 “Events after the Reporting Period”.

As per AS 4, adjustments to assets and liabilities are required 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 or that indicate that the fundamental accounting assumption of going concern (i.e., the continuance of existence or substratum of the enterprise) is not appropriate.

AS 4 also requires disclosure of the non-adjusting event, in the report of the approving authority.

Further, as per SA 560, the auditor shall determine whether each such event is appropriately reflected in those financial statements either by way of an adjustment or by way of disclosure as the case may be.

The event took place after the close of the accounting year and does not relate to conditions existing at the balance sheet date. Thus, it will have no effect on items appearing on the balance sheet date because as per AS 4, the balance sheet have to be adjusted for those events that provide evidence of their existence as at the balance sheet date.

However, the auditor has to determine whether this loss will not materially affect the substratum of the company as per its size, nature and complexity of operations.

Thus, subject to satisfaction in respect of non-violation of going concern concept, the company has correctly accounted by not providing for the loss. However, the auditor is required to determine whether there is a need of proper disclosure of abovementioned event regarding implication on going concern.

In case of Ind AS compliant companies, the auditor should refer to Ind AS 10 which requires disclosure of non-adjusting events in the financial statements.

**Illustration 2: A Co. Ltd. has not included in the Balance Sheet as on 31 March 2021 a sum of Rs.1.50 crores (considered to be a material amount) being amount in the arrears of salaries and wages payable to the staff for the last 2 years as a result of successful negotiations which were going on during the last 18 months and concluded on 30 April 2021. The auditor wants to sign the said Balance Sheet and give the audit report on 31 May 2021. The auditor came to know the result of the negotiations on 15 May 2021. As an auditor comment on the above scenario.**

***Response:*** This case requires attention to SA 560 “Subsequent Events”, AS 4 “Contingencies and Events occurring after the Balance Sheet Date”, AS 29 "Provisions, Contingent liabilities and Contingent Assets" and corresponding Ind AS.

As per AS 4, adjustments to assets and liabilities are required 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. Similarly as per AS 29, future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

In the instant case, the amount of Rs. 1.50 crores is a material amount and it is the result of an event, which has occurred after the Balance Sheet date. The facts have become known to the auditor before the date of issue of the Audit Report and Financial Statements.

The auditor has to perform the procedures to obtain sufficient appropriate audit evidence covering the period from the date of the financial statements i.e. 31 March 2021 to the date of auditor's report i.e. 31 May 2021. It will be observed that as a result of long pending negotiations a sum of Rs.1.50 cores representing arrears of salaries of the year 2019-20 and 2020-21 have not been included in the financial statements. It is quite clear that the obligation requires provision for outstanding expenses as per AS 29 and corresponding Ind AS.

As per SA 560, the auditor should assess that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

So, the auditor should request the management to adjust the sum of Rs.1.50 cores by making provision for expenses. If the management does not accept the request, the auditor should modify the audit report.

**Illustration 3: On 14 October 2020, a material fraud was discovered by the bookkeeper. The payables ledger clerk had been diverting funds into a fictitious supplier bank account, set up by the employee, which had been occurring for the past six months. The employee was immediately dismissed, legal proceedings against the employee have been initiated and the employee's final wages have been withheld as part-reimbursement back to the company. (The financial statements are for the period ended 30 September 2020 and the annual general meeting is scheduled on 29 November 2020).**

***Response:*** Clearly the fraud committed by the payables ledger clerk has been ongoing during, and beyond the financial year.

Fraud, error and other irregularities that occur prior to the year-end date but which are only discovered after the year-end are adjusting items, and therefore the financial statements would require amendment to take account of the fraudulent activity up to the year-end. (Please refer the Revised "Guidance Note on Reporting on Fraud under Section 143(12) of the Companies Act, 2013" issued by the Auditing and Assurance Standards Board of ICAI for detailed guidance)

The audit procedures to be performed to ensure the fraud has been correctly accounted (irrespective of the situation of subsequent events) for in the financial statements may include:

- Recalculation of the amounts involved.
- Discussions with management as to how such a fraud occurred and why it took six months to discover the fraud (controls should prevent, detect and correct material misstatements on a timely basis).
- Establishing how the bookkeeper discovered the fraud and what controls (if any) contain weaknesses to allow the employee to commit the fraud. It may be noted that employee fraud usually involves the manipulation of controls, whereas management fraud often involves the overriding of controls.
- Performing substantive procedures on journal entries (particularly those close to, or at, the year-end).
- Confirming directly with suppliers the account activity for the period under audit.
- Reviewing the purchase invoices and being on alert for any 'doctored' or 'copy' invoices and making enquiries as to their authenticity.
- A review of human resources files for evidence of disciplinary proceedings taken against the employee. This will also confirm compliance with laws and regulations, particularly in relation to employment legislation and the withholding of monies.

- Testing of other controls to identify other weaknesses that may indicate employee or management fraud.
- Assess whether the fraud has been remediated/ dealt by the management. If not, auditor to assess the reporting implications under Section 143(12) of the Companies Act, 2013.
- Obtaining written representations from management concerning the fraud.
- Test checking the cash balance after the year end date to obtain the evidence for reimbursements made by the employee, such as the withheld wages/salaries by the entity.
- Discussions with the entity's legal advisers as to the possibility of reimbursement of the balance of the misappropriated funds.

**Illustration 4: On 20 September 2020, a customer initiated legal proceedings against the company in relation to a breach of contract. On 29 September 2020, the 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 29 October 2020, the court found the company liable on a technicality and is now required to pay damages amounting to a material sum. (The financial statements are for the period ended 30 September 2020 and the annual general meeting is scheduled on 29 November 2020. The audit report has not been issued yet on 29 October 2020).**

***Response:*** At the year-end, the company had made disclosure of a contingent liability. However, subsequent to the year-end (29 October 2020), the court found the company liable for breach of contract. The legal proceedings were issued on 20 September 2020 (some 10 days before the year-end). This is, therefore, evidence of conditions that existed at the year-end and accordingly the event qualifies to be an adjusting event. The audit procedures include the following:

- Obtaining a copy of the court order or other correspondence confirming the company has been found liable to pay compensation to its customer.
- Test checking the cash balance after the year end date to confirm payment to the customer.
- Ensuring a provision has been recognized as opposed to disclosure as a contingent liability.
- Ensuring the provision is reasonable in relation to the outcome of the court case.
- Obtaining written representation from management to confirm the treatment of the provision.