

CA FINAL
M-BOOK

CA Aseem Trivedi's
STANDARDS ON AUDITING
SA 560



*Highbrow*MENTOR
Knowledge Series

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SA-560

SA-560- Subsequent Events - [Effective Date 01.04.2009]

Q.1. What do you mean by Subsequent Event?

According to SA – 560,

- ◆ 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.

Here the

- ◆ **Date of the Financial Statements** means the date of the end of the latest period covered by the Financial Statements and
- ◆ **Date of approval of the Financial Statements** means the date on which all the statements that comprise the Financial Statements have been prepared and those with the recognized authority have asserted that they have taken responsibility for those Financial Statements.

- ◆ For the purpose of this statement the **Date of the Auditor's report means** the date the Auditor dates the report on the Financial Statements in accordance with SA-700.
- ◆ **Date the financial statements** are issued the date that the auditor's report and audited financial statements are made available to third parties.

Q.2. What is Auditor's objective relating to this SA?

According to SA-560 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.

Q.3. What procedures are required to obtain Sufficient and Appropriate Audit Evidence regarding subsequent events?

Step-1 Risk Assessment Procedures: -

Auditor should examine the following:

- ◆ Whether management has any process to identify Subsequent events.
- ◆ Inquiring of management and, TCHWG whether any significant subsequent events have occurred.
- ◆ Reading minutes, of the meetings, of the entity's owners, management and those charged with Governance that has been held after the date of the Financial Statements.
- ◆ Reading the entity's latest subsequent interim Financial Statements, if any.

Step-2 Audit conclusion and reporting:-

If as a result of the procedures performed as required by the **Auditor identifies events that require adjustment of, or disclosure in, the Financial Statements**, the Auditor shall determine whether each such event is appropriately reflected in those Financial Statements.

Step-3 Written representations:-

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.

Q.4. What should be the reaction of the Auditor if some facts, which become known to the Auditor after the date of the 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 the date of the Auditor's report but before the date the Financial Statements are issued, a fact becomes known to the Auditor at the date of the Auditor's report, may have caused the Auditor to amend the Auditor's report, the Auditor shall:

- ◆ Discuss the matter with management and, where appropriate, those charged with Governance.
- ◆ Determine whether the Financial Statements need amendment
- ◆ And, if so, enquire how management intends to address the matter in the Financial Statements.

If Management amends the Financial Statements, the Auditor shall after carrying out Audit procedures on such amendments. Provide a new Auditor's report on the amended Financial Statements. If when Management does not amend the Financial Statements in circumstances where the Auditor believes they need to be amended, then:

- ◆ If the Auditor's report has not yet been provided to the entity, the Auditor shall modify the opinion as required by SA-705 and then provide the Auditor's report; or
- ◆ If the Auditor's report has already been provided to the entity, the Auditor shall notify management and, those charged with Governance, not to issue the Financial Statements to third parties before the necessary amendments have been made.

Q.5. What should be the reaction of Auditor for the facts, which become known to the Auditor after the Financial Statements have been issued?

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 at the date of the Auditor's report, may have caused the Auditor to amend the Auditor's report, the Auditor shall:

- ◆ Discuss the matter with management and, where appropriate, those charged with Governance.
- ◆ Determine whether the Financial Statements need amendment and, if so,
- ◆ Inquire how management intends to address the matter in the Financial Statements.

If the management amends the Financial Statements 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.

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 Subsequent Events reliance on the Auditor's report. If, despite such notification, Management or Those Charged with Governance does not take these necessary steps, the Auditor shall take appropriate action to seek to prevent reliance on the Auditor's report.



THIS SA IN EXAM

Q.6. A co. Ltd. has not included in the Balance Sheet as on 31-03-2010 a sum of Rs. 1.50 crores 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 30-04-2010. The Auditor wants to sign the said Balance Sheet and give the Audit report on 31-05-2010. The Auditor came to know the result of the negotiations on 15-05-2010?

(Nov 10/ 5 Marks)

As per SA-560 “Subsequent Events”, the Auditor should assure 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 crores by making provision for expenses. If the management does not accept the request the Auditor should qualify the Audit report as per SA-705.

Auditor shall consider following technical standards to obtain a reasonable conclusion for the above case

- ◆ SA-560 “Subsequent Events”,
- ◆ AS- 4 “Contingencies and Events occurring after the Balance Sheet Date” and
- ◆ AS-29 “Provision, Contingent liabilities and Contingent Assets”.

According to AS-4 “Contingencies and Events occurring after the Balance Sheet Date”, adjustments to assets and liabilities are required for events occurring after the Balance Sheet date that provide additional information materially affected the determination of the amount relating to conditions existing at the Balance Sheet date. Similarly as per AS-29 “Provision, Contingent liabilities and Contingent Assets”, future events that may affect the amount required to settle an obligation should be reflected in the amount of a

provision where there occurrence is probable (more likely than not)

In the given 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 procedure to obtain sufficient, appropriate evidence covering the period from the date of the Financial Statements to the date of Auditors Report. It will be observed that as a result of long pending negotiations a sum of Rs. 1.50 crores representing arrears of salaries of the year 2008-09 and 2009-10 have not been included in the Financial Statements. It is quite clear that the obligation requires provision for outstanding expenses as per AS-4 and AS-29.

Q.7. Discuss the Audit procedures on subsequent events? (Nov 09/ 4 Marks)

As per SA-560 “Subsequent Events” The Auditor should perform the following procedure to obtain

sufficient appropriate evidence to find out the adjustments/disclosures of those subsequent events:

- ◆ Review the procedures adopted by the management to identify subsequent events.
- ◆ Examine the minutes of the Board of Directors, Executive Committees and the General Meetings of the shareholders.
- ◆ Collect information from the other sources like budgets/estimates, cash flows, forecasts, interim Financial Statements etc.
- ◆ Make enquiries and hold discussions with the top management.
- ◆ Details from company's lawyers for any litigation matter.

