

10+ years of experience! Unbeatable Passion for Audit Subject!!! That's CA Pragnesh Kanabar Sir!

Brahmastra Revision CA Final Audit- New Syllabus

Chapter 6 SAs by CA Pragnesh Kanabar

SA 560, 570 and 580

**Watch Revision Videos on our Youtube Channel- The Audit Academy
to get maximum benefit of these notes**

Visit our website- www.theauditacademy.com to join our Youtube channel, telegram channel and to Download our app.

SA 560 subsequent events

Events occurring between the date of the financial statements and the date of the auditor's report- **Category 1**

1) Obtain SAAE 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 FS are appropriately reflected in those financial FS as per AFRF

2) Procedures- SUMI's Adjustment in writing

S- Subsequent interim FS to be read

U- Understand procedures established by mgmt. to identify SE

M- Minutes of meeting held after the date of FS

I- Inquire- Inquiries of mgmt. whether SE have occurred that require adjustment or disclosure in the FS.

Adjustment- Whether SE that require adjustment/disclosure have been adjusted/disclosed in FS accordingly.

Writing- WR by the mgmt. that all SEs that require adjustment or disclosure have been actually adjusted or disclosed in FS.

CA Pragnesh Kanabar Sir's The Audit Academy
Brahmastra Revision

facts that become known to the auditor after the date of the auditor's report.

Before issuing FS- Category 2

After Issuing FS- Category 3

Common theory for CAT-2 and CAT-3 SEs

A) the auditor has no obligation to perform any audit procedures regarding such FS

B) However, if 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 the auditor's report, the auditor shall

A) Discuss the matter with management and, where appropriate, TCWG.

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

C) Inquire how management intends to address the matter in the financial statements

Mgmt amends the FS and restricts it only to the extent of the effect of subsequent events- **2a**

A) Extend the audit procedures to the date of new auditor's report.
And
B) Provide a new auditor's report on the amended FS.

Mgmt amends FS and does not restrict its approval to the extent of effect of subsequent events- **2b**

Auditor is permitted to restrict procedures only on the subsequent events to that amendment. However, auditor can use one of the following option to revise audit report and include this clarification in the revised audit report
A) Amend the auditor's report to include an additional date restricted to that amendment (Dual dating). Original date of signing plus additional date with references to notes to accounts
OR
B) Provide a new or amended auditor's report that includes a statement in EOM or OM PARA stating that auditor's procedures on subsequent events are restricted solely to the amendment of the FS

Mgmt does not amend FS but auditor believe it should be amended- **2c**

If auditor's report not yet given to the entity then modify opinion as per SA 705

If auditor's report given to the entity then inform mgmt. not to issue such report to third party. If it is still issued then take Apt Action.

Mgmt amends the FS and restricts it only to the extent of the effect of subsequent events- **3a**

Same as given in cat- 2a

Mgmt amends FS and does not restrict its approval to the extent of effect of subsequent events **3b**

Same as given in cat-2b

Additionally include an EOM or OM Para to explain the amendments in the FS and amendments in Audit Report.
Review the steps taken by mgmt. to ensure that anyone in receipt of the previous audit report has been informed about the situation

CA Pragnesh Kanabar Sir's The Audit Academy

Brahmastra Revision

Mgmt does not amend FS but auditor believe it should be amended **3c**

Take Appropriate Action

SA 570 Going Concern

Auditor shall obtain SAAE whether a material uncertainty exists in relation to events or conditions that cast significant doubt over entity's ability to continue as going concern

Risk Assessment Procedure

consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern

determine whether management has already **performed a preliminary assessment** of the entity's ability to continue as a going concern

If such an assessment has been performed then

Inquire whether mgmt has identified events or conditions that can cast significant doubt over entity's ability to continue as going concern.

If such an assessment has not been performed then

Inquiring on what basis mgmt. is applying going concern basis of accounting

Further Audit Procedures

The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern.

Following matters should be considered: ***Complete Period Beyond Future Forecasts Facts to be Written***

A) Period Covered: cover the same period as that used by management to make its assessment as required by AFRF (not less than 12 months from the balance sheet date)

B) Completeness: Whether it includes all relevant information known to the auditor

C) Period beyond management's assessment: whether there are events or conditions beyond the period of management's assessment that can create material uncertainty over going concern.

D) Management's plans for future action: Whether the outcome of these plans can improve the situation

E) Evaluation of Cash flow Forecast: Evaluating the reliability of the supporting data and whether assumptions are reasonable

F) Additional facts post assessment: whether there is any need to re-assess entity's ability to continue as going concern.

G) Written Representation: Requesting WR from mgmt. and where appropriate, TCWG regarding their plans for future actions and feasibility of these plans.

CA Pragmesh Kanabar Sir's The Audit Academy
Brahmastra Revision

Indicators of Material Uncertainty

Financial Indicator

- A) Net liability or net current liability position.
- B) Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets
- C) Indications of withdrawal of financial support by creditors
- D) Negative operating cash flows indicated by historical or prospective financial statements
- E) Adverse key financial ratios.
- F) Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
- G) Arrears or discontinuance of dividends.
- H) Inability to pay creditors on due dates.
- I) Inability to comply with the terms of loan agreements.
- J) Change from credit to cash-on-delivery transactions with suppliers.
- K) Inability to obtain financing for essential new product development or other essential investments.

Operating Indicator

- A) Management intentions to liquidate the entity or to cease operations.
- B) Loss of key management without replacement.
- C) Loss of a major market, key customer(s), franchise, license, or principal supplier(s)
- D) Labor difficulties.
- E) Shortages of important supplies.
- F) Emergence of a highly successful competitor.

Other Indicator

- A) Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
- B) Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
- C) Changes in law or regulation or government policy expected to adversely affect the entity.
- D) Uninsured or underinsured catastrophes when they occur.

Conclusion

Use of Going Concern Basis of Accounting Is appropriate but material uncertainty exists
Management needs to provide adequate disclosures in the FS

Use of Going Concern Basis of Accounting Is Inappropriate

Management needs to prepare liquidation accounts

Adequate Disclosure of a Material
Uncertainty Is Not Made in the FS

Adequate Disclosure of a Material
Uncertainty Is Made in the FS

A) Express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705

And

B) In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter

The auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "**Material Uncertainty Related to Going Concern**" to:

A) Draw attention to the note in the financial statements that discloses such matters and

B) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter

If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion

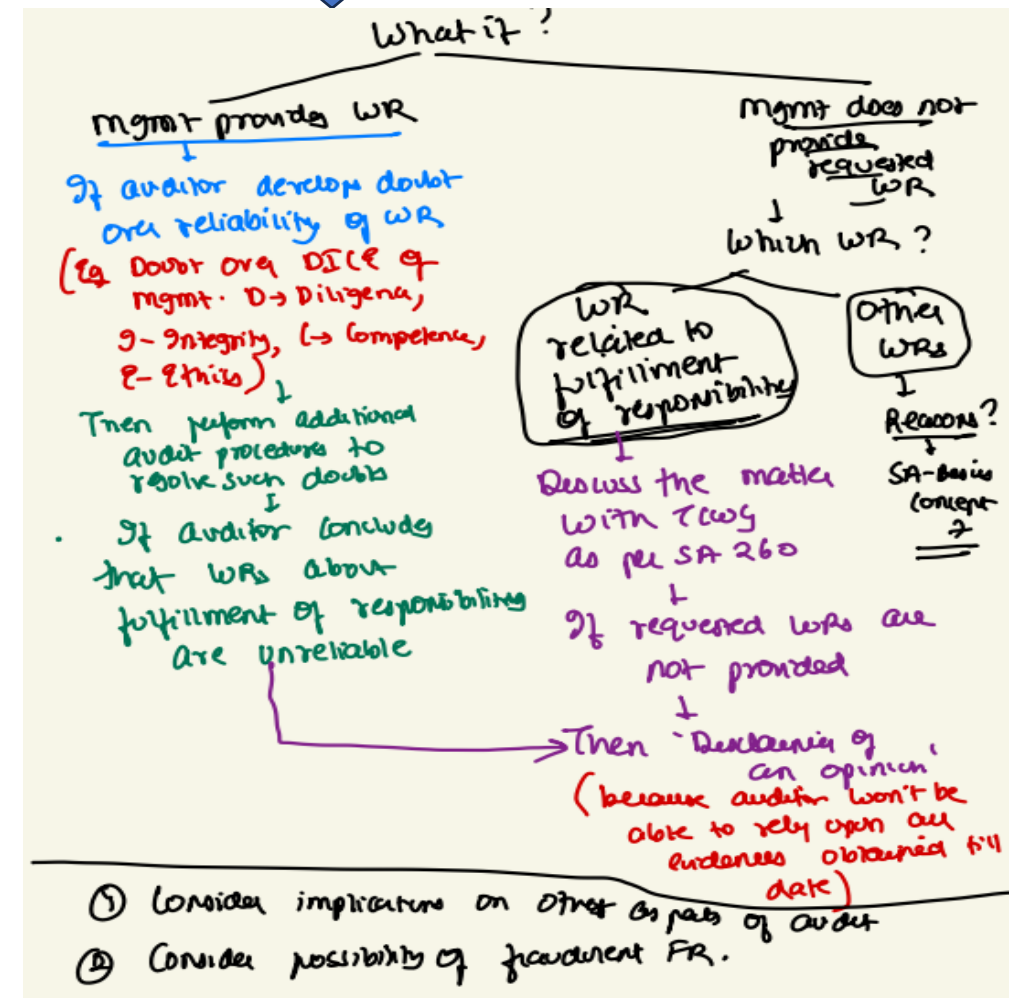
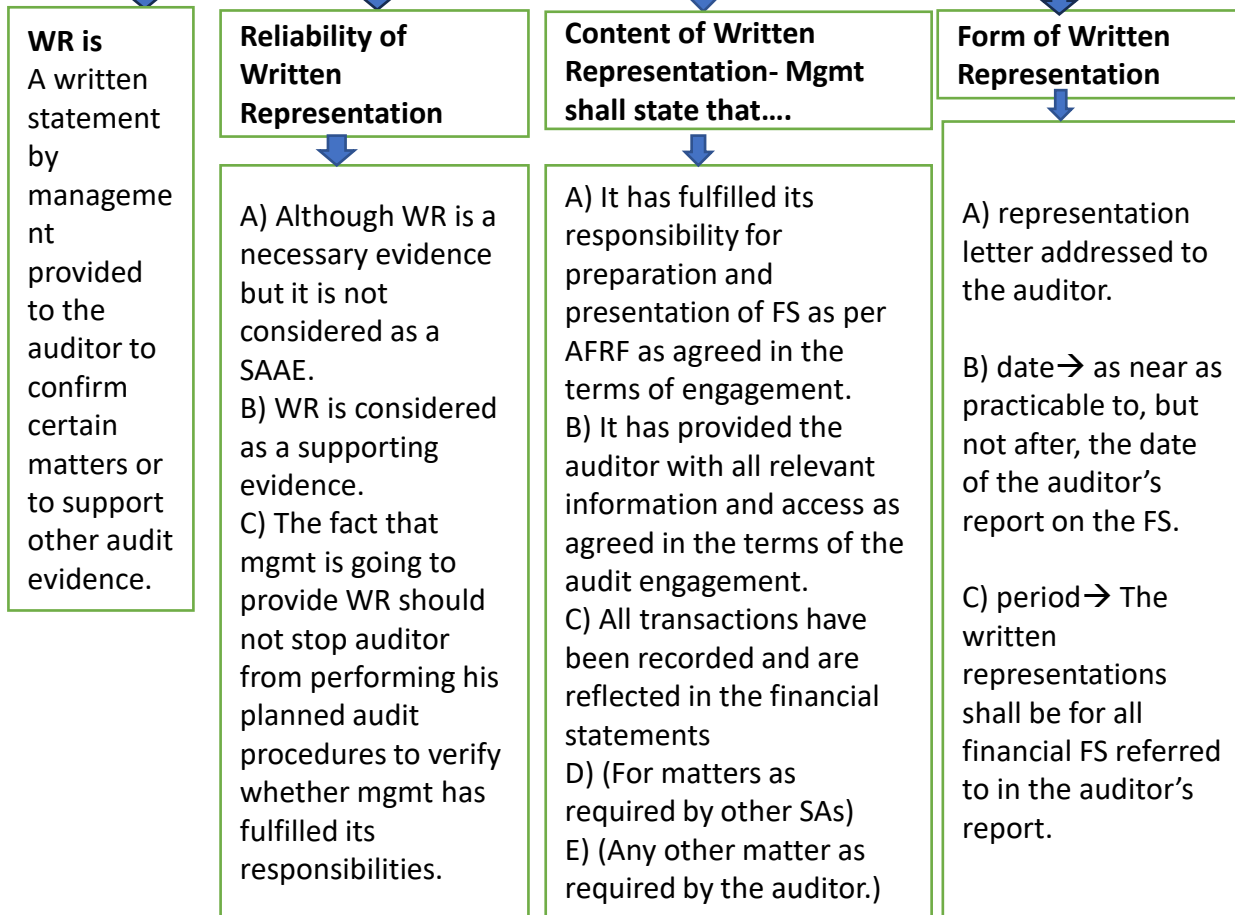
IF the FS are prepared on acceptable basis (liquidation accounts) then auditor may be able to express an unmodified opinion but may consider it appropriate or necessary to include an **Emphasis of Matter paragraph** in accordance with SA 706

Disclosures to be given when auditor concludes that that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists:

A) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions and

B) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

SA 580 Written Representations (WR)



Special points

- 1) In some cases, management may include in the written representations qualifying language to the effect that representations are made to the best of its knowledge and belief. It is reasonable for the auditor to accept such wording if the auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations
- 2) Written representations are requested from those responsible for the preparation and presentation of the financial statements. management (rather than TCWG) is often the responsible party.
- 3) **If law or regulation requires management to make written public statements** about its responsibilities, and the auditor determines that such statements provide some or all of the representations required by SA 580, the relevant matters covered by such statements need not be included in the representation letter.