

AUDIT UPDATE

**KEY AUDIT CONSIDERATION
AMID COVID 19**



**SUBSEQUENT EVENTS: KEY AUDIT CONSIDERATIONS AMID
COVID - 19**

I. Background

- In the series of Auditing Guidance on COVID-19 issued by ICAI, latest is “Subsequent Events – Key Auditing Considerations amid COVID 19”.
- Considering the uncertainties and challenges caused by COVID 19 pandemic and likelihood of unplanned events occurring at any time, entities are required to carefully evaluate the information that becomes available after the date of the financial statements but before the issuance of the financial statements. Auditors are also required to have greater focus on events occurring between the date of the financial statements and the date of the auditor’s report (i.e., subsequent events) and the effect, if any, of such on the entity’s financial statements.

II. What are subsequent events and how should they be reflected in the financial statements?

- As per definition given in Para 5 of SA 560, **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.
- SA 560, “Subsequent Events”, sets out the auditor’s responsibilities with respect to subsequent events. As per paragraph 2 of SA 560, there are generally two types of subsequent events:
 - a) Those that provide evidence of conditions that existed at the date of the financial statements.
 - b) Those that provide evidence of conditions that arose after the date of the financial statements.

For example, Ind AS 10, “Events after the Reporting Period”, prescribes the treatment in the financial statements of transactions and events that occur between the date of the financial statements and the date when the financial statements are approved for issue. The following definitions and resulting treatment in the financial statements are described in paragraphs 3, 8, 10 and 21 of Ind AS 10.

Type of Subsequent Event	Definition	Impact on Financial Statements
Adjusting event after the reporting period	Events that provide evidence of conditions that existed at the end of the reporting period (i.e., at the date of the financial statements).	<u>Adjust</u> the amounts recognized in the financial statements.
Non adjusting event after the reporting period	Events that are indicative of conditions that arose after the reporting period (i.e., after the date of the financial statements).	<u>Disclose</u> the nature of the event and an estimate of its financial effect or a statement that such an estimate cannot be made.

- Management is responsible for making adjustments or preparing relevant other disclosures in the financial statements, as appropriate, with regard to subsequent events in accordance with the applicable financial reporting framework.

III. What are the Auditor's Responsibilities in relation to obtaining sufficient appropriate audit evidence about subsequent events impacted by the COVID-19 pandemic?

- 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).
- In undertaking work to be responsive to the auditor's risk assessment pertaining to subsequent events, including reasons related to the impact of the COVID-19 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 COVID-19 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.

- **The exercise of professional skepticism**

The uncertainties and challenges associated with COVID-19, taking into account the facts and circumstances of the entity, are more likely to result in significant management judgments, requiring significant auditor judgments, which requires the auditor to exercise professional skepticism in undertaking work on subsequent events. Applying professional skepticism in this regard means questioning and considering the sufficiency and appropriateness of audit evidence that all material subsequent events (i.e., those requiring adjustment of, or disclosure in the financial statements) have been identified and are appropriately reflected in the financial statements in the light of the circumstances.

- **Written Representations**

The auditor is required by paragraph 9 of SA 560 to request a written representation 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. As per paragraph 13 of SA 580, "Written Representations", written representations are required to be dated as near as practicable to the date of the auditor's report, but not after that date.

- **The importance of communication with Those Charged with Governance**

The auditor's ongoing and regular communication with those charged with governance, particularly in the period past the date of the financial statements, may assist with the auditor's understanding of the changes being made to respond to the evolving environment and may help the auditor in assessing what procedures they need to undertake to gather sufficient appropriate audit evidence.

IV. Are audit procedures required if the events of the COVID-19 pandemic became known to the auditor after the date of the auditor's report?

- 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.

V. How do the results of the auditor's procedures on subsequent events impact the auditor's report?

- 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".
- SA 560 provides detailed guidance with regard to amending the auditor's report or providing a new / amended auditor's report in certain specific situations. The members are required to refer and comply with such requirements, if applicable to the audit.

VI. Reference

- For detailed guidance on this aspect, please refer the guidance:
 - “Auditor’s Reporting - Key Audit Considerations amid COVID-19” issued by the Auditing and Assurance Standards Board of ICAI on May 17, 2020.

(Websitelink: <https://resource.cdn.icai.org/59546aasb48467.pdf>)

- “Subsequent Events - Key Audit Considerations amid COVID-19” issued by the Auditing and Assurance Standards Board of ICAI on May 23, 2020.

(Websitelink: <https://resource.cdn.icai.org/59680asb48563.pdf>)

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