

SA 560 (AAS 19)

SUBSEQUENT EVENTS

(Effective for all audits commencing on or after 1st April, 2000)

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Standard on Auditing (SA) 560*, "Subsequent Events", should be read in the context of the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services"¹, which sets out the authority of SAs.

* Issued in April, 2000.

¹ Published in the July 2007 issue of the Journal.

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Introduction

1. The purpose of this Standard on Auditing (SA) is to establish standards on the auditor's responsibility regarding subsequent events. In this SA, the term "subsequent events" is used to refer to significant events occurring between the balance sheet date and the date of the auditor's report. In the context of audit of a component, such as a branch or division, of an entity "subsequent events" would refer to significant events upto the date of the report of the auditor of that component of the entity.
2. The auditor should consider the effect of subsequent events on the financial statements and on the auditor's report.
3. Accounting Standard (AS) 4, "Contingencies and Events Occurring After the Balance Sheet Date", issued by the Institute of Chartered Accountants of India, deals with the treatment in financial statements of events, both favourable and unfavourable, occurring between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity. AS 4 identifies two types of events:
 - (a) those which provide further evidence of conditions that existed at the balance sheet date; and
 - (b) those which are indicative of conditions that arose subsequent to the balance sheet date.

Audit Procedures

4. The auditor should perform procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the auditor's report that may require adjustment of, or disclosure in, the financial statements have been identified. These procedures are in addition to routine procedures which may be applied to specified transactions occurring after the balance sheet date to obtain audit evidence as to account balances as at the balance sheet date, for example, the testing of inventory cut-off and payments to creditors. The auditor is not, however, expected to conduct a continuing review of all matters to which previously applied procedures have provided satisfactory conclusions.
5. The procedures to identify events that may require adjustment of, or

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disclosure in, the financial statements would be performed as near as practicable to the date of the auditor's report and ordinarily include the following:

- ◆ Reviewing procedures that the management has established to ensure that subsequent events are identified.
- ◆ Reading minutes of the meetings of shareholders, the board of directors and audit and executive committees held after the balance sheet date and inquiring about matters discussed at meetings for which minutes are not yet recorded.
- ◆ Reading the entity's latest available interim financial statements and, as considered necessary and appropriate, budgets, cash flow forecasts and other related management reports.
- ◆ Inquiring, or extending previous oral or written inquiries, of the entity's lawyers concerning litigation and claims.
- ◆ Inquiring of management as to whether any subsequent events have occurred after the balance sheet date which might affect the financial statements. Examples of inquiries of management on specific matters are:
 - The current status of items that were accounted for on the basis of preliminary or inconclusive data.
 - Whether there have been any developments regarding risk areas and contingencies.
 - Whether any unusual accounting adjustments have been made or are contemplated.
 - Whether any events have occurred or are likely to occur which 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.

6. When a component, such as a division or a branch, of an entity, has already been audited by another auditor, the principal auditor would make similar enquiries as set out in para 5 in respect of events, occurring between the date of signing of the report of the auditor of the component of the entity and signing of his report.

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7. When the auditor becomes aware of events which materially affect the financial statements, the auditor should consider whether such events are properly accounted for in the financial statements. When the management does not account for such events that the auditor believes should be accounted for, the auditor should express a qualified opinion or an adverse opinion, as appropriate.

Effective Date

8. This Standard on Auditing becomes operative for all audits commencing on or after 1st April, 2000.