JAYASEKERA MANAGEMENT CENTRE (PVT) LTD

"Pioneers in Professional Education"

# ADVANCED AUDIT AND ASSURANCE

# CORPORATE LEVEL

# TUTE 04

# (SUBSEQUENT EVENTS – S.L.Au.S -560)

# (EXTERNAL CONFIRMATIONS – S.L.Au.S – 505)

**by**

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# *SUBSEQUENT EVENTS – (S.L.Au.S – 560)*

## A) Introduction

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The events occurring after the reporting date and prior to the auditor's report date and facts that become known to the auditor after the auditor's report might have an impact to the financial statements which has been audited by the auditor.

Main Objectives.

A) To obtain sufficient and appropriate audit evidence about whether events occurring between the date of the Financial Statements and the date of the Auditor's Report that need adjustment in the financial statements are properly reflected in the Financial Statements
B) To respond appropriately to facts that become known to the Auditor after the date of the Auditor's Report that may have caused the Auditor to amend the Auditor's Report, had they been known to the Auditor at the date of the report.

## B) Definitions

Subsequent Events.

"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."

"Events occurring between the period -end and the date of the Auditor's Report and also include the facts discovered after the Auditor's Report has been issued"

**The auditor shall consider the effect of such events on the Financial Statements and their Audit Opinion. Therefore Auditors have a responsibility to review the subsequent events before they sign off the Audit Report and may have to take actions if they become aware of subsequent events between the date they sign the Auditor's Report and the date the financial statements are issued.**

## Events occurring after the reporting date and prior to the Auditor's Report

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 having a "Proactive Responsibility" in this regard.

Depending on the auditor's risk assessment, the audit procedures required may include procedures, necessary to obtain sufficient appropriate audit evidence, involving the review or testing of accounting records or transactions occurring between the date of the financial statements and the date of the auditor's report. The auditor shall take into account the auditor's risk assessment in determining the nature and extent of such audit procedures.

Following procedures will be performed by the Auditor.

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

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

c) Reading minutes 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 to ascertain whether there are any discussion with regard to material subsequent events and inquiring about matters discussed at any such meetings for which minutes are not yet available.

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

e) Reading the entity's latest subsequent interim financial statements.

f) Inquiring from lawyers to identify whether there are any legal cases, after the reporting period and prior to the date of the auditor's report.

Upon obtaining sufficient and appropriate audit evidences based on the above procedures performed, the auditor needs to decide, whether it is an adjusting event or a non-adjusting event.

## Events 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, if, 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, may have caused the auditor to amend the auditor's report, the auditor should perform followings;

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

b) Determine whether the financial statements need amendment and inquire how management intends to address the matter in the financial statements.

If management amends the financial statements, the auditor shall carry out the audit procedures necessary in the circumstances on the amendment. 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.

If management does not amend the financial statements in circumstances where the auditor believes they need to be amended,

a) If the auditor's report has not yet been provided to the entity, the auditor shall modify the opinion as required by standards 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 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 to seek to prevent reliance on the auditor's report

## Events 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, if, 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, 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 inquire how management intends to address the matter in the financial statements.

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.

The auditor shall include in the new or amended auditor's report an Emphasis of Matter paragraph or Other Matter 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, that the auditor will seek to prevent future reliance on the auditor's report.

**Additional Notes.**

# *EXTERNAL CONFIRMATIONS – (S.L.Au.S – 505)*

## A) Introduction

The reliability of audit evidence is influenced by its source and by its nature and is dependent on the individual circumstances under which it is obtained.

A) ***Audit evidence is more reliable when it is obtained from independent sources outside the entity.***

B) ***Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference.***

C) ***Audit evidence is more reliable when it exists in documentary form, whether paper, electronic or other medium.***

Accordingly, depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity.

## B) What are External Confirmations?

"The Audit Evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, by electronic or other medium"

## C) Types of Confirmation Request?

Confirmation Requests can be divided into two segments.

1) **Positive Confirmation Request**
2) **Negative Confirmation Request**

### *1) Positive Confirmation Request*

A request that the confirming party respond directly to the auditor indicating whether the ***confirming party agrees or disagrees with the information in the request, or providing the requested information***.

There are two options under this method where the confirmation request is sent.

A) With the information to be confirmed (Send request letter including outstanding receivable balances)

B) Without the information to be confirmed (Send a blank confirmation request)

A positive external confirmation request asks the confirming party to reply to the auditor in all cases, either by indicating the confirming party's agreement with the given information (With information), or by asking the confirming party to provide information (Without information). A response to a positive confirmation request ordinarily is expected to provide reliable audit evidence.

### *2) Negative Confirmation Request*

A request that the confirming party respond directly to the auditor only it the confirming party disagrees with the information provided in the request.

Negative confirmations provide less persuasive audit evidence than positive confirmations.

The auditor shall only use negative confirmations to reduce the risk of financial statement misstatement to an acceptable level without also performing other substantive procedures when:

- The assessed risk of material misstatement associated with the relevant financial statement assertion is low;
- A large number of small balances is involved.
- A substantial number of errors is not expected; and
- The auditor believes that respondents will not disregard the confirmation requests.

## D) External Confirmation Procedure

When the auditor decides to request positive or negative confirmations, the auditor shall plan, design, undertake and control the external confirmation procedures, including:

(a) Identification of the member or members of the audit team responsible for controlling the external confirmation process, the resources assigned and the timing of the related procedures.

(b) Selection of items for which external confirmations will be requested.

(c) Design and preparation of the confirmation requests.

(d) Communication of the confirmation requests to the appropriate confirming party.

(e) Consideration of the results (responses, non-responses and exceptions) of confirmation requests; and

(f) Evaluation of the evidence obtained from the confirmation requests.

## E) Management's Refusal to Allow the Auditor to Send a Confirmation Request

If management refuses to allow the auditor to send a confirmation request, the auditor shall Inquire the reasons for the refusal, and seek audit evidence as to their validity and reasonableness, Evaluate the implications of management's refusal on the risk of fraud, and on the nature, timing and extent of other audit procedures perform. The auditor should focus on the alternative audit procedures designed to obtain relevant and reliable audit evidence.

If auditor concludes that management's refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall communicate with those charged with governance of the company and response on the risk associated with management refusal.

**Important:**
If there is a difference between the balance appear in the confirmation with the balance recorded in the client's financial statement, the proper attention should be devoted to the identified differences to ascertain whether there are material misstatements