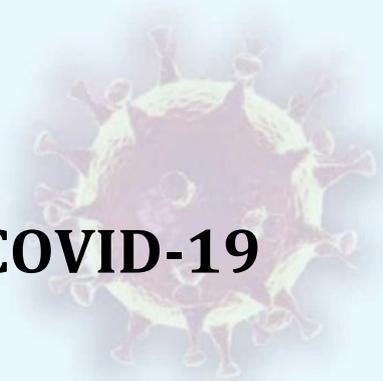
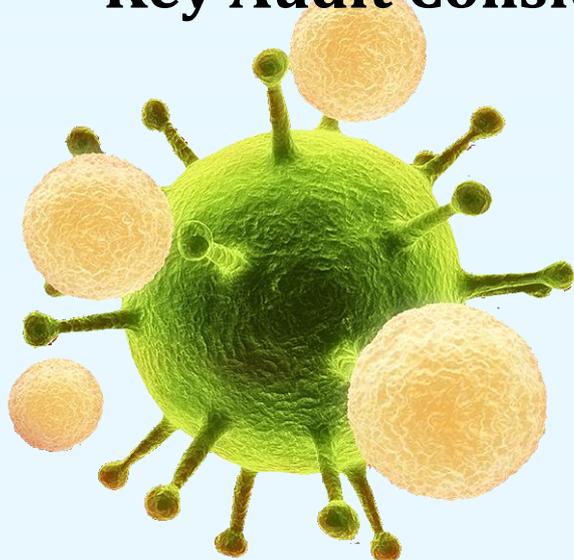


Subsequent Events Key Audit Considerations amid COVID-19



**Auditing and Assurance Standards Board (AASB)
The Institute of Chartered Accountants of India**



Composition of AASB

Council Members

- ▶ CA. G. Sekar, Chairman, AASB
- ▶ CA. (Dr.) Debashis Mitra, Vice Chairman, AASB
- ▶ CA. Atul Kumar Gupta, President, ICAI
- ▶ CA. Nihar Niranjana Jambusaria, Vice-President, ICAI
- ▶ CA. Anil Satyanarayan Bhandari
- ▶ CA. Chandrashekar Vasant Chitale
- ▶ CA. Nandkishore Chidamber Hegde
- ▶ CA. Shrinivas Yeshwant Joshi
- ▶ CA. Durgesh Kumar Kabra
- ▶ CA. Aniket Sunil Talati
- ▶ CA. Dayaniwas Sharma
- ▶ CA. M.P. Vijay Kumar
- ▶ CA. Ranjeet Kumar Agarwal
- ▶ CA. Manu Agrawal
- ▶ CA. Anuj Goyal
- ▶ CA. Kemisha Soni
- ▶ CA. Satish Kumar Gupta
- ▶ CA. Prakash Sharma
- ▶ CA. Hans Raj Chugh
- ▶ CA. Pramod Jain
- ▶ CA. Charanjot Singh Nanda
- ▶ CA. (Dr.) Sanjeev Kumar Singhal
- ▶ Ms. Ritika Bhatia
- ▶ Adv. Vijay Kumar Jhalani

Co-opted Members

- ▶ CA. Jaideep Bhargava
- ▶ CA. R S Balaji
- ▶ CA. Rahul Joglekar
- ▶ CA. Kshitij Manubhai Patel
- ▶ CA. Amit Gattani
- ▶ CA. Kedar Kumbhojkar
- ▶ CA. Kailash Chandra Baheti
- ▶ CA. Ramakant Gupta

Special Invitees

- ▶ CA. Jeenendra Bhandari
- ▶ Dr. Padmini Srinivasan
- ▶ Dr. Ashok Haldia
- ▶ CA. Sandeep Sharma



Acknowledgement

We wish to express our sincere thanks to CA. Atul Kumar Gupta, Honourable President, ICAI and CA. Nihar Niranjana Jambusaria, Honourable Vice-President, ICAI for providing us the opportunity to develop this Auditing Guidance on “Subsequent Events – Key Audit Considerations amid COVID-19” for the benefit of the members.

We express our gratitude to the Board members for their valuable suggestions in finalizing this Guidance.

CA. (Dr.) Debashis Mitra
Vice Chairman
Auditing and Assurance Standards Board

CA. G. Sekar
Chairman
Auditing and Assurance Standards Board



Other Auditing Guidance on COVID-19 issued by AASB

- March 27, 2020: ICAI Accounting and Auditing Advisory - Impact of Coronavirus on Financial Reporting and the Auditors Consideration (issued jointly with Accounting Standards Board of ICAI).

Website Link: <https://resource.cdn.icai.org/58829icai47941.pdf>

- May 10, 2020: Going Concern - Key Considerations for Auditors amid COVID-19.

Website Link: <https://resource.cdn.icai.org/59473aasb48392.pdf>

- May 13, 2020: Physical Inventory Verification – Key Audit Considerations amid COVID-19.

Website Link: <https://resource.cdn.icai.org/59498aasb48418.pdf>

- May 17, 2020: Auditor's Reporting - Key Audit Considerations amid COVID-19.

Website Link: <https://resource.cdn.icai.org/59546aasb48467.pdf>



This document has been prepared to highlight key areas of focus in the current environment when undertaking procedures relating to subsequent events in accordance with the Standards on Auditing (SAs).

This document does not amend or override the SAs and it is not a substitute for reading the SAs.

Preparers, those charged with governance and users of financial statements may find this document helpful in understanding the auditor's responsibilities in relation to subsequent events.

I. Background

The uncertainty and challenges caused by the COVID-19 pandemic, including the likelihood of unplanned events occurring at any time, the uncertain duration of this current environment and extension of timelines for filing financial statements impact many areas of audit. Under the current scenario, 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 (Please refer **Appendix** for relevant Definitions and Descriptions of Terms used in this document).

On March 27, 2020, ICAI has issued an "Accounting and Auditing Advisory - Impact of Coronavirus on Financial Reporting and the Auditors Consideration" (Website link: <https://resource.cdn.icai.org/58829icai47941.pdf>). The aforesaid Advisory provides following guidance in respect of subsequent events:

"The following needs to be considered by the management in the preparation of financial statements:



According to Ind AS 10, “Events after the Reporting Period”, events occurring after the reporting period are categorised into two viz. (i) Adjusting events i.e. those require adjustments to the amounts recognised in its financial statements for the reporting period and (ii) Non-adjusting events i.e. those do not require adjustments to the amounts recognised in its financial statements for the reporting period. In certain cases, Management judgement may be required to categorise the events into one of the above categories.

Similarly, in accordance with AS 4, “Contingencies and Events Occurring After the Balance Sheet Date”, adjustments to assets and liabilities are required to be made for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. However, adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. Disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise.

Entities must disclose significant recognition and measurement uncertainties that might have been created by the outbreak of the COVID-19 in measuring various assets and liabilities. They should also disclose how they have dealt with the impact of COVID-19 on the financial position and financial performance of the entity.

The responsibilities of the auditor for the subsequent events i.e. events between the date of financial statements and the date of auditor’s report as per SA 560 are as follows:

Events Occurring Between the Date of the Financial Statements and the Date of the Auditor’s Report

6 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 not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions. (Ref: Para. A6)

- 7 *The auditor shall perform the procedures required by paragraph 6 so that they cover the period from the date of the financial statements to the date of the auditor's report, or as near as practicable thereto. The auditor shall take into account the auditor's risk assessment in determining the nature and extent of such audit procedures, which shall include the following: (Ref: Para. A7-A8)*
- a) *Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.*
 - b) *Inquiring of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements. (Ref: Para. A9)*
 - c) *Reading minutes, if any, 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 and inquiring about matters discussed at any such meetings for which minutes are not yet available. (Ref: Para. A10)*
 - d) *Reading the entity's latest subsequent interim financial statements, if any.*
- 8 *When, as a result of the procedures performed as required by paragraphs 6 and 7, 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."*



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

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.

As described in SA 560, many financial reporting frameworks refer to events that occur after the date of the financial statements as subsequent events. 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.

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. For example, 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 events 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).	Adjust the amounts recognized in the financial statements.



Non-adjusting events 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).	Disclose the nature of the event and an estimate of its financial effect or a statement that such an estimate cannot be made.
---	--	--

Therefore, entities need to evaluate all events that occurred after the date of the financial statements and assess, which of those events provide additional evidence of conditions that existed at the date of the financial statements and for which financial statements need to be adjusted; and the events which lead to disclosure only.

Management’s Considerations When Assessing Events After the Date of the Financial Statements

In complying with the applicable financial reporting framework, management exercises judgment in determining impact on the financial statements of any subsequent events related to the COVID-19 pandemic, taking into consideration the date of the financial statements, the facts and circumstances pertaining to the entity, and the conditions that existed at, or arose after, that date. As the impacts of the COVID-19 outbreak continue to evolve, including regulatory restrictions/conditions, capturing events that relate specifically to conditions that existed at the date of the financial statements, or after the date of the financial statements, will require careful assessment.

III. How are the auditor’s responsibilities in relation to obtaining sufficient appropriate audit evidence about subsequent events impacted by the COVID-19 pandemic?

SA 700(Revised), “Forming an Opinion and Reporting on Financial Statements” stipulates that the date of the auditor’s report informs the user of the auditor’s report that the auditor has considered the effects of events and transactions of which the auditor becomes aware and that occurred up to that date. Therefore, it is



important for the auditor to obtain an understanding of subsequent events and how these have been dealt with in the financial statements.

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.

Examples of Events and Conditions that May be Relevant in the Current Environment

The following are examples of events or conditions that may be affected by, or exist as a result of, the COVID-19 pandemic, and which may be relevant for the auditor in determining whether subsequent events have occurred and, if applicable, have been appropriately reflected in the financial statements (also refer paragraphs A7–A10 of SA 560):



- ❖ New commitments, borrowings or guarantees that have been entered into as a result of the pandemic.
- ❖ Invocation of force majeure clause after the year-end by any party (e.g., supplier, customer etc.) thereby impacting the supply chain / availability of customers for the entity's products.
- ❖ Recent or planned sales or acquisitions of assets as a result of the pandemic.
- ❖ Increases in capital or issuance of debt instruments, such as the issue of new shares or debentures, or an agreement to merge or liquidate that has been made or is planned.
- ❖ Expected credit loss provisioning – where there are customers in COVID-19 impacted countries and where they have filed for liquidation post the entity's year-end will impact the collectability of the trade receivables.
- ❖ Probability of meeting performance vesting conditions under share-based payment arrangements and the appropriate accounting for modifications or settlements of such arrangements.
- ❖ Relief or economic stimulus payments provided by the government in the form of loans or grants. It is important to understand the nature of the stimulus, conditions to be complied by entities, etc. Many of the concessions have dates attached and entities need to be cognizant of those as they determine impact on the financial statements.
- ❖ Any developments regarding contingencies (for example, new contingent liabilities or circumstances affecting the evaluation of existing contingent liabilities, the ability to meet agreed-on performance targets for contingent consideration in business combination arrangements, etc.).
- ❖ Any unusual accounting adjustments that have been made or are contemplated, such as additional or revised closing entries.
- ❖ Any events that will bring into question the appropriateness of accounting policies and assumptions used in the financial statements (e.g. events call into question the validity of the going concern assumption, expected credit loss model, inventory obsolescence, useful lives of PPE etc.).



- ❖ Any events that are relevant to the measurement of estimates or provisions made in the financial statements. Examples include derivative and hedging considerations (e.g. where a forecast transaction is no longer highly probable), insurance claims (e.g. whether it is virtually certain that amounts are receivable under business interruption and/or other insurance and the potential disclosure of contingent assets), rebate arrangements with customers or suppliers, variable consideration, commission accruals, etc.).
- ❖ Any events that are relevant to the recoverability of assets, ongoing pertinence of business and valuation assumptions, valuation of plan assets.
- ❖ Modification of existing contractual arrangements (e.g. reduction or deferral of lease payments granted by a lessor to a lessee, modifications to debt terms, etc.).
- ❖ Tax considerations (e.g. impact of reduced flow of goods and services on transfer pricing agreements; recoverability of deferred tax assets).
- ❖ Employee termination benefits resulting from a workforce reduction (e.g. as a result of closure or reorganization of operations that occurred after the reporting date). This may be a contrary evidence in a situation where an entity is forecasting expansion in business in the subsequent year(s).
- ❖ Some industries are more impacted than others e.g. entities in the aviation sector (and therefore entities that are feeder industries to entities in the aviation sector), real estate, construction, retail, tourism, hospitality, transportation, financing, infrastructure sectors. In such industries, it is critical for management to assess the impact of events occurring after the balance sheet date on the financial statements.
- ❖ Impact on realizable values of inventory of a short-term nature in case of inability to sell the products during the period of lockdown.
- ❖ Dishonour of payments / EMI received from debtors / borrowers at a date later than 31st March 2020.
- ❖ Indications of impairment in the value of investments in companies whose businesses have been severely affected by the pandemic.
- ❖ Any other significant events which would raise doubts over the entity's ability to continue as a going concern in accordance with SA 570(Revised), "Going Concern".



The Exercise of Professional Skepticism

Management's identification, determination and treatment of adjusting or non-adjusting events, as applicable, are likely to be more challenging due to the impact of COVID-19. Consequently, there may be a need for the auditor to design and perform enhanced or additional procedures.

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 COVID-19 pandemic has resulted in various challenging and complex areas related to financial reporting. Those charged with governance are likely to have increasingly important responsibilities in the entity's financial reporting and other governance processes. For example, they may need to ensure that the entity adapts its design and maintenance of appropriate controls with regard to the reliability of



financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

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.

If the auditor is able to obtain sufficient appropriate audit evidence about subsequent events as required in terms of SA 560, he may or may not consider it appropriate to identify the subsequent event as a Key Audit Matter in accordance with paragraphs 9-10 of SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report" or he may or may not determine it to be necessary to draw users' attention to the subsequent event through inclusion of an Emphasis of Matter paragraph or Other Matter paragraph in accordance with paragraphs 8-11 of SA 706(Revised), "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report".

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.

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



Appendix

Relevant Definitions and Descriptions of Terms used in this Document (Taken from Definitions given in Paragraph 5 of SA 560)

- ❖ **Date of the financial statements** – The date of the end of the latest period covered by the financial statements.
- ❖ **Date of approval of the financial statements** – The date on which all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognized authority have asserted that they have taken responsibility for those financial statements.
- ❖ **Date of the auditor’s report** – The date the auditor dates the report on the financial statements in accordance with SA 700(Revised). This date informs the users of the auditor’s report that the auditor has considered the effects of events and transactions of which the auditor became aware and that occurred up to that date [paragraph A58 of SA 700(Revised)].
- ❖ **Date the financial statements are issued** – The date that the auditor’s report and audited financial statements are made available to third parties.
- ❖ **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.

