Auditor's Responsibilities on Subsequent Events

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Subsequent events

According to HKSA 560 "Subsequent Events", the term "subsequent events" refers to events occurring between the date of the financial statements and the date of the auditor's report, and facts discovered after the date of the auditor's report.

Balance sheet date | Auditor's report date | Financial statements issue date

Events occurring up to the date of the auditor's report:

The auditor should perform audit 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. The procedures include:

- Reviewing procedures management has established to ensure that subsequent events are identified.
- Reading minutes of the meetings of shareholders, the board of directors, and audit committee, held after period end.
- Reading the entity's latest available interim financial statements.
- Inquiring, or extending previous oral or written inquiries, of the entity's legal counsel concerning litigation and claims.
- Inquiring of management as to whether any subsequent events have occurred which might affect the financial statements.

When the auditor becomes aware of events which materially affect the financial statements, the auditor should consider whether such events are properly accounted for and adequately disclosed in the financial statements.

For information about adjusting events and non-adjusting events, refer to Note 1 at the end of this article.

Management amends the financial statements

Yes
Issue unqualified opinion

No
Issue qualified opinion

Facts discovered after the date of the auditor's report but before the financial statements are issued

- The auditor does not have any responsibility to perform audit procedures
- Management has the responsibility to inform the auditor of facts which may affect the financial statements
- Once the auditor is aware of any fact that may materially affect the financial statements:
  - consider whether the financial statements need amendment
  - discuss the matter with the management
  - take appropriate action

Management amends the financial statements

Yes
- provide new auditor's report on the amended financial statements

No
- auditor believes financial statements need to be amended
- original auditor's report has been released to the entity

Yes
- notify those ultimately responsible for the overall direction of the entity not to release the auditor's report to third parties
- if subsequently released, take action to prevent reliance on auditor's report (depending on legal advice)
- take appropriate action

No
- express a qualified opinion – except for (disagreement) or adverse opinion (HKSA 701)

Facts discovered after financial statements are issued

- The auditor has no obligation to make any inquiry after this time
- Once the auditor is aware of any fact that may have caused him/her to modify his/her report

- consider whether the financial statements need revision
- discuss the matter with the management
- take appropriate action

Management amends the financial statements

Yes

- ensure management take steps to inform the public of the revision
- issue a new report on the revised financial statements
- include an emphasis of a matter paragraph in the new auditor's report referring to a note to the financial statements discussing the reason for the revision
- take appropriate action

No

- notify those persons ultimately responsible for the overall direction of the entity that action will be taken by the auditor to prevent future reliance on the auditor's report
- take legal advice

✧ If matters are discovered long after the financial statements have been issued, it is common to deal with the matter as a prior period adjustment in the subsequent financial statements.

Note 1:

According to HKAS 10 "Events after the Balance Sheet Date", definitions and examples of adjusting events and non-adjusting events are as follows:

Adjusting events

✧ those that provide evidence of conditions that existed at the balance sheet date

For example:

✧ the settlement after the balance sheet date of a court case that confirms that the entity had a present obligation at the balance sheet date

✧ the receipt of information after the balance sheet date indicating that an asset was impaired at the balance sheet date, or that the amount of a previously recognized impairment loss for that asset needs to be adjusted, such as:

- the bankruptcy of a customer that occurs after the balance sheet date usually confirms that a loss existed at the balance sheet date on a trade receivable and that the entity needs to adjust the carrying amount of the trade receivable; and
- the sales of inventories after the balance sheet date may give evidence about their net realizable value at the balance sheet date.

Non-adjusting events

✧ those that are indicative of conditions that arose after the balance sheet date

For example:

✧ a major business combination after the balance sheet date or a disposing of a major subsidiary

✧ the destruction of a major production plant by a fire after the balance sheet date

If non-adjusting events after the balance sheet date are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the balance sheet date:

i) the nature of the events; and

ii) the estimate of its financial effect, or a statement that such an estimate cannot be made