Practical Guidance No. 9 (Issued – September 2011)

Topic: Subsequent Events Review

Introduction

1. Before the sign-off of the auditor’s report, auditors have the responsibility of ensuring that all significant subsequent events that occurred between the date of the financial statements and the date of the auditor’s report have been adequately disclosed in and/or adjusted to the financial statements audited. This is required in accordance with Clarified Singapore Standard on Auditing (“SSA (R)”) 700 “Forming an Opinion and Reporting on Financial Statements” paragraph A38 as “the date of the auditor’s report informs the user of the auditor’s report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date”.

2. This Practical Guidance aims to provide auditors with some guidance in performing appropriate audit procedures to identify subsequent events occurring between the date of the financial statements and the date of the auditor’s report.

3. The effects of subsequent events on the financial statements which occurred after the date of the auditor’s report and what constitute adjusting events and/or non-adjusting events in accordance with SSA 700 (R) “Forming an Opinion and Reporting on Financial Statements” and Singapore Financial Reporting Standards (“FRS”) 10 “Events After the Reporting Period” are not within the scope of this Practical Guidance*.

Guiding Principle

4. SSA 560 (R) “Subsequent Events”, paragraph 2 states that “financial statements may be affected by certain events that occur after the date of the financial statements”.

5. SSA 560 (R), paragraph 6 states that “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.”

6. SSA 560 (R), paragraph 7 states that “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

* FRS 10 “Events After the Reporting Period” paragraphs 9 and 22 provide some examples of adjusting events and non-adjusting events respectively.
auditor’s risk assessment in determining the nature and extent of such audit procedures, which shall include the following:

(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.
(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.
(d) Reading the entity’s latest subsequent interim financial statements, if any.”

7. SSA 560 (R), paragraph 8 states that “if, as a result of the procedures as required by paragraph 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 in accordance with the applicable financial reporting framework.”

**Practical Application**

8. Some small and medium enterprises (“SMEs”) in Singapore may not have formal procedures to identify subsequent events, formal records of internal meetings in respect of significant events discussed or updated interim financial statements for the auditor to review. This poses a challenging situation for auditors when performing a subsequent events review.

9. In the absence of such relevant documents, auditors could perform alternative audit procedures to identify any subsequent events that had occurred.

**Absence of Management’s Formal Procedures to Identify Subsequent Events/ Formal Records of Internal Meetings in Respect of Significant Events Discussed**

10. Given the smaller scale of business and less complex structure of SMEs, the management of the company is often also the directors and/or shareholders of the company. With the close involvement of the directors and/or shareholders in the daily operations of the company, the auditor could perform the following procedures, which are also part of the required audit procedures stated in paragraph 7 of SSA 560(R), in the absence of management’s formal procedures to identify subsequent events and/or formal records of internal meetings in respect of significant events discussed:

   **Review of director’s resolutions, minutes of meeting of shareholders and statutory records maintained by the company secretary**

11. Significant operational matters and business decisions are approved via shareholders’ meetings and director’s resolutions where the minutes of these meetings are required to be maintained by the company. In addition, any changes in shareholdings and/or directors also need to be
updated and maintained by the company. As such, it is important for the auditor to perform a review of such available records when performing a subsequent events review.

Direct inquiry of management

12. In view that management is closely involved in the company’s operations, the auditor should engage management in discussions to understand whether, based on the management’s knowledge of the business operation and business environment, there are any subsequent events that had occurred after the date of the financial statements to the date of the auditor’s report. The auditor should also obtain an understanding from management on the possible impact to the financial statements for the subsequent events identified by management. In addition, the management’s representation (whether there are subsequent events or not) need to be corroborated with audit evidence gathered through other procedures including the review or testing of accounting records or transactions (the detailed work to be performed is covered in paragraphs 14 to 24 below). To further assist the auditor in performing the inquiry, SSA 560 (R) paragraph A9 has provided some examples of relevant matters for the auditor to discuss with management.

No Updated Interim Financial Statements Available

13. SSA 560 (R) also acknowledges that in reality, there are some companies that do not have updated interim financial statements as the transactions are not updated timely to the accounting system. As such, SSA 560 (R) paragraph A7 elaborated that in such instances, auditors should perform the inspection of “available books and records, including bank statements”. The detailed work to be performed is covered in paragraphs 14 to 24 below.

Reviewing or Testing of Accounting Records or Transactions Between the Date of Financial Statements and Date of Auditor’s Report

14. Other than the review or testing of bank statements which is specifically mentioned in SSA 560 (R) paragraph A7, auditors could also perform the following inspection of books and records between the date of the financial statements and the date of the auditor’s report for the purpose of performing a subsequent events review:

Review payments made subsequent to year-end and supplier invoices received as at date of review

15. These audit procedures can be ordinarily performed together with the work performed for search for unrecorded liabilities test where the review of payments made subsequent to year-end and supplier invoices received as at date of review is also performed. However, the auditor needs to be mindful that the objectives for subsequent events reviews and search for unrecorded liabilities are fundamentally different. The objective of the former is to identify any events, favorable and unfavorable, that occur between the date of the financial statements and the date of the auditor’s report while the objective of the latter is to identify any unrecorded liabilities as at year-end to address the completeness of liabilities.
16. As such, it is important that while carrying out the procedure together with the search for unrecorded liabilities, auditor must also review these records for any subsequent events that require disclosure in and/or adjustments to the financial statements. This additional procedure performed on top of those to search for unrecorded liabilities need to be properly documented to clearly demonstrate that work has been appropriately and adequately carried out in respect of the subsequent events review.

**Review cashbook transactions subsequent to year-end**

17. The cashbook records both the cash payments and cash receipts and is usually updated on a timely basis. As such, through the review of the cashbook and verification to the source documents such as suppliers’ invoices and sales invoices for selected payments or receipts respectively, the auditor would be able to identify the nature of the transactions and assess whether a subsequent event has taken place.

18. The result of the review of the cash payments should also be corroborated with the result of the work performed on the review of payments made and unpaid suppliers’ invoices received as mentioned in paragraphs 15 and 16. Similarly, the result from the review of cash receipts should be corroborated with the result of the work performed for the review of receivables recoverability and subsequent receipts received from customers.

**Review of Journal Entries**

19. Auditors should review journal entries made subsequent to the date of the financial statements for any non-standard and/or non-recurring transactions and assess whether any subsequent events such as reversal of sales, impairment of financial and/or non-financial assets, etc. after the date of the financial statements has occurred.

20. This review also needs to correspond with the audit work performed in the course of the audit such as sales cut-off, review of credit notes/debit notes subsequent to year-end and impairment assessment of financial and/or non-financial assets to assess whether any adjustments to or disclosure in the financial statements are required.

**Review significant contracts and/or agreements**

21. Most of the significant transactions entered by the company would be supported by contracts and/or agreements. Auditors should also review these significant contracts and/or agreement entered by the company to identify whether any subsequent events such as the acquisition or disposal of business and capital expenditures, etc. has occurred after the date of the financial statements.

**Review of correspondences with suppliers, customers and lawyers**

22. Correspondences with suppliers, customers and lawyers would usually provide some insight to the auditors in respect of any disputes with suppliers and/or customers and any litigation that
the company is involved in. From such review, auditors would be able to identify any contingent liabilities arising from litigation involved and any additional impairment on receivables from customers who had defaulted payments.

23. The result of the review of these correspondences should also be corroborated with the result of the work performed to review legal/professional fees expenses accounts as mentioned in paragraph 24 and the result of the review of receivables recoverability and subsequent receipts received from customers in the course of the audit.

*Review of legal/professional fees expenses accounts*

24. The expenses incurred in respect of any ongoing/pending law suits, purchases and sales of company’s assets, etc. would be recorded in the legal/professional fees expenses accounts. As such, the auditor should review this expense account and verify to the source documents of legal correspondences, legal advices from lawyers, sales and purchases agreements to identify the nature of the transactions and assess whether a disclosure and/or adjustment to the financial statements is necessary.

*Revisiting Significant Assumptions and Accounting Estimates*

25. SSA 540(R) paragraph 13(a) states that “in responding to the assessed risks of material misstatement, as required by SSA 330, the auditor shall determine whether events occurring up to the date of the auditor’s report provide audit evidence regarding the accounting estimate.”

26. As such, the auditor also needs to revisit the significant assumptions and accounting estimates used and/or made in the preparation of the financial statements such as going concern, fair value estimates, trade receivables impairment assessment, slow-moving and obsolete inventories assessment, etc. to assess whether subsequent events occurred have any impact on them. This is essential as the change in circumstances arising from the subsequent events might have caused these assumptions and accounting estimates to be no longer acceptable.

*Documentation of Subsequent Events Review*

27. Generally, auditors make use of an audit programme when performing audit procedures in respect of subsequent events review. Auditors should ensure that adequate and sufficient audit documentation on subsequent events review is documented in the audit programme. Documentation such as “Yes” and/or “Done” for each audit work step in the audit programme is not considered adequate documentation prepared in accordance with SSA 230(R) “Audit Documentation” paragraph 5, which states that “the objective of the auditor is to prepare documentation that provides a sufficient and appropriate record of the basis of the auditor’s report and evidence that the audit was planned and performed in accordance with SSAs and applicable legal and regulatory requirements”. SSA 230(R), paragraph 8 also states that “the auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand...”.
28. The audit documentation prepared on the audit programme used in respect of subsequent events review performed should instead include details of “the nature, timing and extent of the audit procedures”, “the result of the audit procedures performed, and the audit evidence obtained” and “significant matters arising during the audit, the conclusion reach thereon and significant professional judgments made in reaching those conclusions” as required by SSA 230(R) “Audit Documentation” paragraph 8. An illustrative example of an adequate audit documentation prepared using an audit programme in respect of subsequent events review is provided in Appendix A.

Conclusion

29. The subsequent events review is an important audit procedure to be performed up to the date of the auditor’s report. Due to the dynamism of the businesses environment, the procedures provided in this Practical Guidance are not an exhaustive list. Auditors need to bear in mind the business environment that the company is operating in and his/her risk assessment of the company so as to enable him/her to design and perform the appropriate and adequate audit procedures for subsequent events review. Auditors also need to ensure that the audit documentation prepared in respect of the audit procedures performed is in accordance with the requirements in SSA 230(R) “Audit Documentation”.

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This illustrative example is an extract of the audit programme and only serves as a guide. It should not be considered to be the only acceptable form of audit documentation to support the audit procedures performed in respect of subsequent events review. Auditors are responsible for ensuring that the audit documentation prepared is truly reflective of the audit procedures performed.

### AUDIT PROGRAMME – SUBSEQUENT EVENTS & GOING CONCERN

<table>
<thead>
<tr>
<th>Subsequent events</th>
<th>Test required (Y/N)</th>
<th>Results satisfactory (Y/N)</th>
<th>Sch Ref</th>
<th>Comments</th>
<th>Initial &amp; date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Obtain an understanding of any procedures management has established to ensure that subsequent events are identified</td>
<td>Y</td>
<td>Y</td>
<td>NA</td>
<td>Management does not have formal procedures. However, noted management are closing involved in the operation of the company. As such, they have knowledge should any subsequent events occurred. We have involved the MD to discuss for any subsequent events noted by him. See work step #3 below for work done.</td>
<td>T5/ 8 March</td>
</tr>
<tr>
<td>2 Review the following to ensure that nothing has occurred since the date of the financial statement to the final audit which should be disclosed or provided for:</td>
<td>Y</td>
<td>Y</td>
<td>700-10</td>
<td>(a) Obtained the latest management accounts as at 28 Feb 2011. The analytical review on this accounts is performed in AWP #700-10. No unusual or significant events noted from the review.</td>
<td>T5/ 8 March</td>
</tr>
<tr>
<td>(a) latest subsequent interim statements, if any, and minutes of meetings.</td>
<td></td>
<td></td>
<td>600-10</td>
<td>(b) We have reviewed the minutes and statutory records up to 8 March 2011 (audit report sign-off date). See AWP #600-10</td>
<td></td>
</tr>
<tr>
<td>Additionally, if the above are not available, consider:</td>
<td></td>
<td></td>
<td></td>
<td>(c) No budget or forecast available. However, we have performed an analytical review on the latest management accounts as at 28 Feb 2011. See (a) above.</td>
<td></td>
</tr>
<tr>
<td>(c) reviewing the latest budget, forecasts or other management reports;</td>
<td></td>
<td></td>
<td></td>
<td>(d) No legal counsel. However, we have reviewed the legal and professional expenses in AWP #500-16. There was no material legal fees.</td>
<td></td>
</tr>
<tr>
<td>(d) Inquiring the legal counsel; and</td>
<td></td>
<td></td>
<td></td>
<td>(e) See work performed in AWP #700-16. No unusual transactions noted from the review.</td>
<td></td>
</tr>
<tr>
<td>(e) reviewing material and unusual journal entries.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Discuss with management and document the date of discussion, agenda, attendees and details of discussion. Consider the following:</td>
<td>Y</td>
<td>Y</td>
<td>700-20</td>
<td>We have discussed the item 3(a) to 3(j) with Mr TT (MD) on 8 March 2011. Mr TT confirmed that there was no subsequent events that requires disclosure and/or adjustment to the financial statements. In addition, we have also obtained a letter of representation from management to confirm that no subsequent events has occurred up to audit sign-off date on 8 March 2011. See AWP #700-20 for a copy of the letter of representation.</td>
<td>T5/ 8 March</td>
</tr>
<tr>
<td>(a) The current status of items that were accounted for on the basis of preliminary or inconclusive data.</td>
<td></td>
<td></td>
<td></td>
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</tbody>
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