

Subsequent Events in the Current Evolving Environment—Audit Considerations for the Impact of COVID-19

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

This publication does not amend or override the ISAs, the texts of which alone are authoritative. Reading this publication is not a substitute for reading the ISAs.

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

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 potential shifting timelines impact many areas within the audit. At the end of each reporting period, entities will be carefully evaluating information that becomes available after the reporting date but before the issuance of the financial statements. Accordingly, auditors will likely require greater focus on events occurring between the date of the financial statements and the date of the auditor's report (i.e., subsequent events¹) and the effect, if any, of such on the entity's financial statements (see also Relevant Definitions and Descriptions on the last page for additional context).

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

ISA 560, *Subsequent Events*, sets out the auditor's responsibilities with respect to subsequent events.

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.²

As described in ISA 560, many financial reporting frameworks refer to events that occur after the date of the financial statements as subsequent events. For example, International Accounting Standard (IAS) 10, *Events After the Reporting Period*, details 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 authorized for issue.

¹ ISA 560, *Subsequent Events*, paragraph 5(e)

² ISA 560, paragraph 2

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. The following definitions and resulting treatment in the financial statements are described in IAS 10.³

Type of Subsequent Event	Definition and Impact
<p>Adjusting events</p>	<p>Events that provide evidence of conditions that existed at the end of the reporting period (i.e., at the date of the financial statements).</p> <p>Impact: Adjust the amounts recognized in the financial statements.</p>
<p>Non-adjusting events</p>	<p>Events that are indicative of conditions that arose after the reporting period (i.e., after the date of the financial statements).</p> <p>Impact: Disclose the nature of the event and an estimate of its financial effect or a statement that such an estimate cannot be made.</p>

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 the financial statement impact of any subsequent events related to the COVID-19 pandemic, taking into consideration the date of the financial statements, the facts and circumstances of the entity, and the conditions that existed at, or arose after, that date. Consider, for example, the following illustrative scenario:



* World Health Organization

In this scenario, the date of the financial statements is prior to the WHO declaration of a public health emergency, the WHO declaration of the pandemic, and the resulting decline in the performance of global markets, but after the first reported cases in Wuhan, China. In determining whether relevant conditions existed at the date of the financial statements, management would take into account their particular circumstances, for example, their location and the location of their operations (e.g., whether the company had significant operations in China).

Different considerations would apply if the date of the financial statements is March 31, 2020 or June 30, 2020. As the impacts of the COVID-19 outbreak continue to evolve, capturing events that relate specifically to conditions that existed or exist at the date of the financial statements, or after the reporting date, will require careful assessment.

³ IAS 10, paragraphs 3, 8 and 10

Further guidance with regard to management’s responsibilities in relation to subsequent events in the current environment can be found in the International Federation of Accountants’ (IFAC) editorial “*The Financial Reporting Implications of COVID-19*”.⁴ Some jurisdictions have also issued guidance for their specific local circumstances related to whether events arising from the COVID-19 pandemic are adjusting or non-adjusting (disclosable) events, which may also be helpful for others to refer to.

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

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 auditor’s report, have been identified and appropriately reflected in the financial statement in accordance with the applicable financial reporting framework (see ISA 560, paragraphs 6–8).

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).

Performing Procedures to the Date of the Auditor’s Report

In some jurisdictions, extensions have been granted for filing financial reports. In these circumstances, while auditors may have already performed subsequent event procedures through the initial planned auditor report date, auditors will be required to undertake procedures to cover the longer period. It is important in the constantly evolving current environment that the audit evidence obtained regarding subsequent events covers the entire period to the date of the auditor’s report. For example, in the illustrative scenario presented above, audit procedures on subsequent events should extend through March 31, 2020.

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 see ISA 560, paragraphs A7–A10):

⁴ <https://www.ifac.org/knowledge-gateway/supporting-international-standards/discussion/financial-reporting-implications-covid-19>



New commitments, borrowings or guarantees that have been entered into as a result of the pandemic



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



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



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, or events that require non-standard journal entries



Any events that will bring into question the appropriateness of accounting policies used in the financial statements (e.g. events call into question the validity of the going concern assumption)



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



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)

The Exercise of Professional Skepticism

Management’s determination and treatment of adjusting or non-adjusting events, as applicable, are likely to be more challenging owing to the impact of COVID-19. Correspondingly, 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 ISA 560, paragraph 9, 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.

Written representations are required to be dated as near as practicable to the date of the auditor's report, but not after that date.⁵ The COVID-19 pandemic may be a contributing factor to a delay in the approval of financial statements (as stated earlier, some jurisdictions have allowed additional time or extensions for filing financial reports). In such cases it is important that written representations cover the additional period to the date of the auditor's report, or as close as practicable, including any further changes that may need to be incorporated.

Also, if management has undertaken their work in relation to identifying and accounting for adjusting or non-adjusting events, as applicable, to a period that ends earlier than the extended period, the auditor may request management to extend their considerations in light of any changes during the extended period.

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 will likely 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 evidence.

Are there required audit procedures 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 at the date of the auditor's report, may have caused the auditor to amend their report.

For instance, in the illustrative scenario presented earlier, if significant COVID-19 events became known to the auditor on April 8, 2020 that, had they been known at March 31, 2020 (the date of the auditor's report), may have resulted in an amendment to the auditor's report, additional procedures may be required.

ISA 560, paragraphs 10 through 17, addresses the auditor's responsibilities when facts become known to the auditor after the date of the auditor's report.

⁵ ISA 580, *Written Representations*, paragraph 14

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 ISA 705 (Revised).⁶

If the auditor is able to obtain sufficient appropriate audit evidence about subsequent events as required in terms of ISA 560, they may or may not consider it appropriate to identify the subsequent event as a Key Audit Matter per ISA 701,⁷ or they may or may not determine it is necessary to draw users' attention to the subsequent event through inclusion of an Emphasis of Matter paragraph or Other Matter paragraph pursuant to ISA 706.⁸ Auditor reporting is addressed more generally in a separate Staff Audit Practice Alert: *Auditor Reporting in the Current Evolving Environment - Audit Considerations Due to the Impact of COVID-19*.⁹

Relevant Definitions and Descriptions¹⁰

Various dates are referenced throughout this publication. Definitions or descriptions that help provide context are set out below:

- ***Date of the financial statements*** – Date of the end of the latest period covered by the financial statements.
- ***Date of approval of the financial statements*** – 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*** – Date the auditor dates the report on the financial statements. 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.¹¹
- ***Date the financial statements are issued*** – Date that the auditor's report and audited financial statements are made available to third parties.

⁶ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, paragraph 6

⁷ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, paragraphs 9-10

⁸ ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraphs 8-11

⁹ To be published May 2020

¹⁰ ISA 560, paragraph 5(a)-(d)

¹¹ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph A66

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