

## NSA 16

### NEPAL STANDARDS ON AUDITING SUBSEQUENT EVENTS

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This NSA is applicable in all material respects to Public Sector also.
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#### **Introduction**

1. The purpose of this Nepal Standard on Auditing (NSA) is to establish standards and provide guidance on the auditor's responsibility regarding subsequent events. In this NSA, the term "subsequent events" is used to refer to both events occurring between period end and the date of the auditor's report, and facts discovered after the date of the auditor's report.
2. This NSA is to be read in conjunction with the Preface to Nepal Standards on Auditing.
3. This NSA contains the basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material.
4. This NSA needs only be applied to material matters.
5. **The auditor should consider the effect of subsequent events on the financial statements and on the auditor's report.**
6. International Accounting Standard 10, "Contingencies and Events Occurring After the Balance Sheet Date," deals with the treatment in financial statements of events, both favorable and unfavorable, occurring after period end and identifies two types of events:

- (a) those that provide further evidence of conditions that existed at period end; and
- (b) those that are indicative of conditions that arose subsequent to period end.

### **Events Occurring up to the Date of the Auditor's Report**

7. **The auditor should perform 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.** These procedures are in addition to routine procedures which may be applied to specific transactions occurring after period end to obtain audit evidence as to account balances as at period end, for example, the testing of inventory cutoff and payments to creditors. The auditor is not, however, expected to conduct a continuing review of all matters to which previously applied procedures have provided satisfactory conclusions.
8. The procedures to identify events that may require adjustment of, or disclosure in, the financial statements would be performed as near as practicable to the date of the auditor's report and ordinarily include the following:
  - 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 and executive committees held after period end and inquiring about matters discussed at meetings for which minutes are not yet available,
  - reading the entity's latest available interim financial statements and, as considered necessary and appropriate, budgets, cash flow forecasts and other related management reports,
  - inquiring, or extending previous oral or written inquiries, of the entity's lawyers concerning litigation and claims and
  - inquiring of management as to whether any subsequent events have occurred which might affect the financial statements. Examples of inquiries of management on specific matters are:
    - the current status of items that were accounted for on the basis of preliminary or inconclusive data,
    - whether new commitments, borrowings or guarantees have been entered into,
    - whether sales of assets have occurred or are planned,

- whether the issue of new shares or debentures or an agreement to merge or liquidate has been made or is planned,
  - whether any assets have been appropriated by government or destroyed, for example, by fire or flood, or earthquake, or made unproductive without complete destruction,
  - whether there have been any developments regarding risk areas and contingencies,
  - whether any unusual accounting adjustments have been made or are contemplated, and
  - whether any events have occurred or are likely to occur which will bring into question the appropriateness of accounting policies used in the financial statements as would be the case, for example, if such events call into question the validity of the going concern assumption.
9. When a component, such as a division, branch or subsidiary, is audited by another auditor, the auditor would consider the other auditor's procedures regarding events after period end and the need to inform the other auditor of the planned date of the auditor's report.
10. **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.**

**Facts Discovered After the Date of the Auditor's Report but Before the Financial Statements are Issued**

11. The auditor does not have any responsibility to perform procedures or make any inquiry regarding the financial statements after the date of the auditor's report. During the period from the date of the auditor's report to the date the financial statements are issued, the responsibility to inform the auditor of facts which may affect the financial statements rests with management.
12. **When, after the date of the auditor's report but before the financial statements are issued, the auditor becomes aware of a fact which may materially affect the financial statements, the auditor should consider whether the financial statements need amendment, should discuss the matter with management, and should take the action appropriate in the circumstances.**

13. When management amends the financial statements, the auditor would carry out the procedures necessary in the circumstances and would provide management with a new report on the amended financial statements. The new auditor's report would be dated not earlier than the date the amended financial statements are signed or approved and, accordingly, the procedures referred to in paragraphs 7 and 8 would be extended to the date of the new auditor's report.
14. **When management does not amend the financial statements in circumstances where the auditor believes they need to be amended and the auditor's report has not been released to the entity, the auditor should express a qualified opinion or an adverse opinion.**
15. When the auditor's report has been released to the entity, the auditor would notify those persons ultimately responsible for the overall direction of the entity not to issue financial statements and the auditor's report thereon to third parties. If the financial statements are subsequently released, the auditor needs to take action to prevent reliance on the auditor's report. The action taken will depend on the auditor's legal rights and obligations and the recommendations of the auditor's lawyer.

#### **Facts Discovered After the Financial Statements Have Been Issued**

16. After the financial statements have been issued, the auditor has no obligation to make any inquiry regarding such financial statements.
17. **When, after the financial statements have been issued, the auditor becomes aware of a fact which existed at the date of the auditor's report and which, if known at that date, may have caused the auditor to modify the auditor's report, the auditor should consider whether the financial statements need revision, should discuss the matter with management, and should take the action appropriate in the circumstances.**
18. When management revises the financial statements, the auditor would carry out the audit procedures necessary in the circumstances, would 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, and would issue a new report on the revised financial statements.
19. **The new auditor's report should include an emphasis of a matter paragraph referring to a note to the financial statements that more extensively discusses the reason for the revision of the previously issued financial statements and to the earlier report issued by the auditor.** The new auditor's report would be dated not earlier than the date the revised financial statements are approved and, accordingly, the procedures referred to in paragraphs 7 and 8 would ordinarily be extended to the date of the new auditor's report. Where regulations permit the auditor to restrict the audit procedures regarding the revised financial statements

to the effects of the subsequent event that necessitated the revision, in such cases, the new auditor's report would contain a statement to that effect.

20. When management does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation and does not revise the financial statements in circumstances where the auditor believes they need to be revised, the auditor would 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. The action taken will depend on the auditor's legal rights and obligations and the recommendations of the auditor's lawyers.
21. It may not be necessary to revise the financial statements and issue a new auditor's report when issue of the financial statements for the following period is imminent, provided appropriate disclosures are to be made in such statements.

### **Offering of Securities to the Public**

22. **In cases involving the offering of securities to the public, the auditor should consider any legal and related requirements applicable to the auditor in all jurisdictions in which the securities are being offered.** For example, the auditor may be required to carry out additional audit procedures to the date of the final offering document. These procedures would ordinarily include carrying out the procedures referred to in paragraphs 7 and 8 up to a date at or near the effective date of the final offering document and reading the offering document to assess whether the other information in the offering document is consistent with the financial information with which the auditor is associated.

### **Compliance with International Standards on Auditing**

23. Compliance with this NSA ensures compliance in all material respects with ISA 560 (Subsequent Events).

### **Effective Date**

24. This Nepal Standards on Auditing becomes operative for the audit commencing on or after 01 Magh 2061 corresponding to 14 January 2005. Earlier application is encouraged.