CHAPTER 6

COMPLETION AND REVIEW



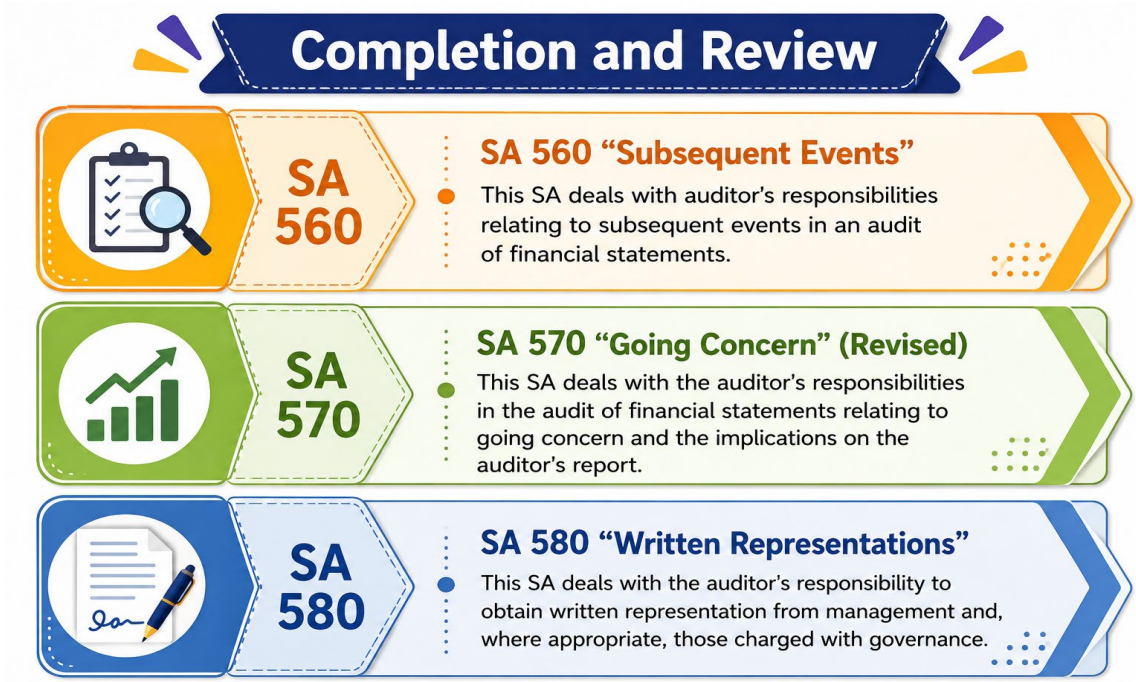
LEARNING OUTCOMES

After studying this chapter, you will be able to:

- Refreshen up your knowledge about procedures relating to completion and review
- Glance through relevant SAs-SA 560, SA 570 and SA 580 pictorially
- Gain application-based knowledge of above SAs.
- Understand the concepts through use of analytical examples and case studies.
- Gain knowledge about varied practical situations for an auditor while performing such procedures.

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CHAPTER OVERVIEW



CA Sujatha M is an auditor of a company engaged in manufacturing energy-saving electric lights. As an auditor of the company, she already knew that a devastating fire had taken place in the plant of the company during the year gone by, and the entire building, plant, machinery and inventories were gutted. Estimate of loss to the company's assets was to the tune of ₹ 50 crores. The company had lodged a claim with insurers, but there was no progress on the claim settlement front till the close of the year.

The company's operations have been shut down since then. The company had little money to reinvest in fresh assets on its own. The promoters had put certain personal properties for sale. However, due to the sluggish real estate market, no deals could materialise. Meanwhile, customers of the company had started procuring their requirements from other suppliers.

As an auditor of the company, she was in a dilemma. The main question troubling her related to the ability of the company to restart its operations in such circumstances and to continue as a going concern. She had to complete the audit within the timelines. She was keeping her fingers crossed and adopted a "Wait and watch" policy to consider the impact of any developments regarding claim settlement. There were still four months left. She could wait.

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Suddenly one day, she came to know that the forensic lab conducting the examination of samples taken from the fire site had given an adverse report casting doubt upon the genuineness of the claim itself. All hopes for the recovery of losses had dashed.

The management had provided her a future plan of action to restart the business. She was also provided with a "cash flow forecast" for coming periods. However, she was not convinced regarding expected cash flows. She was of the prima facie view that the company was not going to withstand such a huge loss in the absence of claim money, and its plans were too rosy and impracticable. The negative forensic lab report changed the whole situation.

However, on deeper scrutiny by management, the findings of the forensic lab appeared to be contradictory. The management found gaping loopholes in the said report. The company was earning good margins and was paying handsome taxes. It was in expansion mode. The demand for its products was also growing rapidly. In such a situation, why would one take such a criminal step? The management decided to take it heads on.

While performing her audit procedures, she checked for any updates on the claim. It became known to her that the management of the company had challenged the forensic lab reports by giving a point-wise rebuttal with the insurers. Even officers of the insurance company were not able to digest forensic lab reports. As the management provided video graphics and other digital evidence, the forensic lab was left red-faced. It seemed that extraneous considerations had prevailed in the course of the submission of their report.

The insurance company asked the forensic lab to reconsider their findings in light of the company's submissions. A positive revised report was submitted by the lab to the insurance company. Now, doors had opened for settlement of the claim and resolution of the claim was in sight.

Performing audit procedures regarding subsequent events helped her to identify those conditions that either mitigate or otherwise affect the company's ability to continue as a going concern. Since she was particular about performing procedures regarding subsequent events, she was able to identify mitigating factors affecting uncertainty associated with the outcome of the claim. In light of these developments, she could convince herself about the ability of the company to continue as a going concern.

After performing substantive procedures, certain procedures are still to be performed by the auditor before the audit report is issued. Some of such important procedures include dealing with the effect of subsequent events, obtaining sufficient appropriate evidence regarding the use of going concern assumption by management and obtaining written representations.

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1. SA 560 SUBSEQUENT EVENTS

SA 560- " Subsequent Events"

Scope of the SA	Definitions	Objectives of the auditor	Events occuring between the date of the Financial Statements and date of the auditor's report	Facts which become known to the auditor after the date of the auditor's report but before the date the financial statements are issued	Facts that become known to the auditor after the financial statements have been issued
This SA deals with auditor's responsibilities relating to subsequent events in an audit of financial statements.	**Subsequent Events:** Events occuring 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.	Obtain sufficient appropriate audit evidence about whether events occuring 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 are appropriately reflected in those financial statements. Respond appropriately to the facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.	1. The auditor shall perform audit procedures to ensure that all such events have been identified. 2. The auditor shall consider the auditor's risk assessment in determining the nature and extent of such procedures. 3. If such event is identified, determine whether such event is appropriately reflected in financial statements. 4. Obtain Written Representation that all such events have been adjusted or disclosed.	1. Discuss the matter with management or TCWG. 2. Determine whether the financial statements need amendment. 3. Inquire how management intends to address the matter in the financial statements. **If management amends the financial statements, auditor should extend the audit procedures and** 1. Either amend the audit report to include an additional date restricted to the amendment. 2.Or provide a new/ amended report including a statement in EOM/ OM para. **If management doesn't amend the financial statements.** 1. If audit report not yet provided to the management, modify the opinion. 2. If audit report has already been provided to the management, notify TCWG not to issue it to third parties. If still issued then take appropriate action to prevent reliance on the auditor's report.	1. Discuss the matter with management or TCWG. 2. Determine whether the financial statements need amendment. 3. Inquire how management intends to address the matter in the financial statements. **Review if management has taken steps to inform about the situation to everyone in receipt of the previously issued financial statements.** 1. If steps taken, issue new/ amended report with EOM/ OM para. 2.If steps not taken, then take appropriate steps to prevent reliance on the auditor's report.

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SA 560 deals with the auditor's responsibilities relating to subsequent events in an audit of financial statements. The objectives of the auditor in this regard are to obtain sufficient appropriate evidence about whether such events are appropriately adjusted or disclosed in financial statements. Further, in case some facts have come to his knowledge after date of auditor's report, to respond to those facts such that had they been known to him at the date of the report, they may have caused him to amend the auditor's report.

TEST YOUR UNDERSTANDING 1

"Move Fast Limited" is engaged in the manufacturing of shoes and slippers located in Bahadurgarh in Haryana. Due to unprecedented rains in the area in the month of September 2025, many areas of the town got inundated due to the choking of sewer systems. As a result of the above, the company's premises located in town were also affected, resulting in damage of stocks.

The company has lodged a claim with the insurance company for ₹ 1 crore, and the same is shown as a claim receivable as of 31st March 2026, as the claim was not settled at year end.

The insurance surveyor appointed in the case submitted a report to the insurance company recommending a claim of ₹45 lacs in the month of April 2026. The company has also given its consent for the same, and the settled amount of ₹45 lacs was transferred to the bank account of the company on 15th May 2026.

You have just finished performing substantive procedures of the company by the end of May 2026. Is there any responsibility cast upon you as auditor of the company in the above situation?

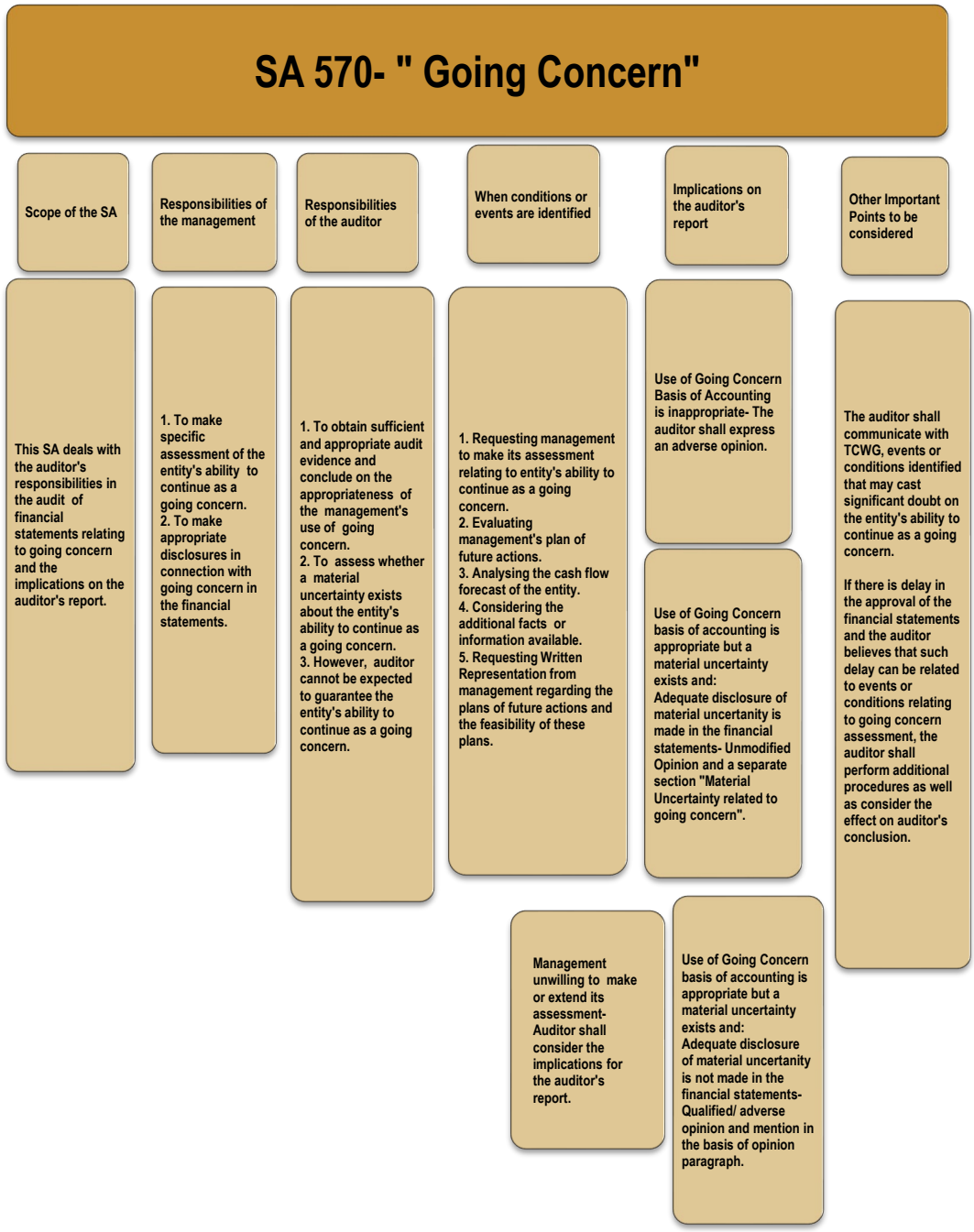
TEST YOUR UNDERSTANDING 2

CA Anuj is the auditor of a listed company, and he is in the midst of conducting an audit of the said company for the financial year ending 31st March, 2026. At a meeting of the Board of Directors held on 17th April, 2026, a dividend of ₹ 1 crore is proposed to equity shareholders @ ₹10/- per share, and such a proposal has a good chance of being approved in the AGM of the company to be held after few months.

His audit procedures are near completion. He is contemplating finalizing the audit report by 31st July, 2026. Is there any responsibility thrust upon him as an auditor of the company?

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2. SA 570 GOING CONCERN



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SA 570 Going Concern deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.

The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding use of the going concern basis of accounting in the preparation of the financial statements by the management. On the basis of evidence obtained, it is concluded whether a material uncertainty exists relating to events or conditions that may cast a significant doubt on the entity's ability to continue as a going concern.

TEST YOUR UNDERSTANDING 3

CA Somya is auditor of a company engaged in rearing of poultry birds and obtaining eggs therefrom. The company has performed very well since its incorporation in 2013. Its sales had also grown and the company had expanded its market from the native northern state of promoters to far-flung areas in eastern parts of country.

However, since last two years, company's fortunes have nosedived. First, due to the effects of the pandemic and then due to recurrent outbreaks of bird flu thrice in a span of two years. The company's sales have dipped from around ₹ 50 crores to ₹10 crores. Further, a major part of its livestock was also wiped off during bird flu. She is not optimistic about the going concern assumption followed by management.

The management now wants to start with new batches of birds. The earlier working capital facilities of the company granted by bank have also been restructured to support the business. She was informed that the repayments of restructured working capital term loans are to begin from ensuing year. No fresh credit facilities have been granted by the bank. The company also plans longer credits from animal feed suppliers.

The company plans to take additional measures to prevent the safety of live stocks, including aggressive vaccination, preventive health check-ups, and more frequent visits of veterinary staff.

The villagers in surrounding areas have accused the company of spreading air pollution.

The management has prepared a cash flow forecast for her examination. Discuss the approach to be adopted by her in examining the "going concern" assumption keeping in view above with specific reference to cash flow forecast.

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TEST YOUR UNDERSTANDING 4

CA Sooraj finds that key financial ratios of a company, like current ratio, debt-service coverage ratio, inventory turnover ratio, and trade receivables turnover ratio, are in red and have deteriorated considerably as compared to last year. The company is also not able to pay to its creditors on time. The company is requesting time and again to its bankers to grant additional credit facilities, but bankers are not listening.

There have been significant losses to the company due to the lack of response of the company's products in the market. As a result of it, many products are sold at below cost price. There have been situations where the company is not able to pay the salaries of staff on time.

All these negative findings have led him to conclude that the use of going concern as the basis of accounting is not appropriate. He brings this matter to the knowledge of CFO of the company. What is reporting duty cast upon him in such a scenario?

The CFO informs him that the management, in turn, is ready to include in the disclosures the inappropriateness of its use of going concern assumption of accounting.

How should it impact the auditor's opinion in case management itself discloses the inappropriateness of its use of going concern assumption of accounting now?

3. SA 580 WRITTEN REPRESENTATIONS

SA 580 Written representations deals with the auditor's responsibility to obtain written representations from management and, where appropriate, those charged with governance.

Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management's responsibilities or about specific assertions.

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SA 580- " Written Representations"

Scope of the SA	Objectives of the auditor	Written Representation as Audit Evidence	Date & Periods covered by Written Representation	Important points to be considered
This SA deals with the auditor's responsibility to obtain written representation from management and, where appropriate, those charged with governance.	1. To obtain written representation from the management or TCWG that they believe that they have fulfilled their responsibility for the preparation of the financial statements and for the completeness of the information provided to the auditor. 2. To support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of written representations. 3. To respond appropriately to written representation provided by management/ TCWG.	Although Written Representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own.	The date of Written Representation shall be as near as practicable to, but not after, the date of the auditor's report on the financial statements. Written Representation shall be for all financial statements and periods referred to in the auditor's report.	**Doubts as to reliability of Written Representations:** If written representations are inconsistent with other audit evidence, auditor shall perform audit procedures to resolve the matter. If the auditor concludes that the written representation are not reliable, the auditor shall take appropriate action in accordance with SA 705. **Requested Written Representation not provided:** Auditor shall discuss with the management, re-evaluate the integrity of management, take appropriate actions including the impact on audit report as per SA 705.

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TEST YOUR UNDERSTANDING 5

Following is a written representation given by RES Limited to its statutory auditors i.e. M/s CTK & Associates for audit of financial year 2025-26. The audit was completed and report dated 31-07-2026 was issued.

Point out, if there is any, anomaly in written representation reproduced below:

15th April, 2026

To

CTK & Associates

Chartered Accountants

Dear Sir,

This representation letter is provided in connection with your audit of the financial statements of RES Limited for the year ended March 31, 2026 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the applicable accounting standards in India.

We confirm that (to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves):

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated 17th August 2025 for the preparation of the financial statements in accordance with financial reporting Standards, in particular, the financial statements give a true and fair view in accordance with the applicable accounting standards in India.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of applicable accounting standards in India. (SA 550)
- All events subsequent to the date of the financial statements and for which applicable accounting standards in India require adjustment or disclosure have been adjusted or disclosed. (SA 560)

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- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter. (SA 450)

Information provided

- We have provided you with: -
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves: -
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. (SA 550)

Chief Financial Officer

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Case Scenario 1

CA Sneha, a partner in M/s J & Associates, is carrying out a statutory audit of M/s ABC Stores Ltd. for the Financial Year 2025-26, and she is ready to sign her audit report on 01.07.2026. There are some written representations which are pending with the management of the company pertaining to such an audit, and she sent Deepak (her articled trainee), who is also a member of the engagement team, to the company's office for collection of the same.

On returning back, Deepak tells CA Sneha that major stocks of the company got destroyed because of a fire in their plant on 27.06.2026, and it has affected the company's operations badly. However, the business operations are likely to be resumed by management at an alternate place.

CA Sneha postponed the issuance of the audit report to consider the impact of such an event on the financial state of affairs of the company. She wants the management to disclose the impact of this unfortunate event in financial statements for the year 2025-26, to which management is disinclined. After the management's refusal, she issued her audit report on 15.07.2026.

The management of the company seeks an appointment from CA Sneha to discuss an important matter on 20.07.2026. They informed her that the company had lost a lawsuit filed against it by one of the creditors on 18.07.2026 in a fast-track court, and now the company has to pay the plaintiff a huge amount of ₹ 2 crores. The events causing this lawsuit arose after 31.03.2026.

CA Sneha is a bit perplexed, and her first question to the people from management visiting her office was whether audited financial statements have been made available to any third parties or filed with the regulator. The management responded negatively.

Now, CA Sneha wants them to amend the financial statements to include the impact of this lawsuit on the financial affairs of the company. This time, they agreed and amended the financial statements accordingly to cover the impact of both the events – that of the fire in the plant and losing the lawsuit, but they requested CA Sneha to issue a new audit report against the earlier one dated 15.7.2026.

The management amends the financial statements, which are finally approved on 25.7.2026. CA Sneha issues a new audit report.

Considering the above situation, answer the following questions: -

1. What would be the appropriate date of signing of the new audit report?

(a) 20.07.2026

(b) Anytime between 15.07.2026 & 18.07.2026

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(c) On or after 25.07.2026

(d) Anytime between 15.07.2026 & 25.07.2026

2. CA Sneha would have taken into account a lot of procedures to get knowledge of the events occurring after the balance sheet date up to the date of the audit report relating to the company. Which of the following does not fall under such audit procedures as per SA 560?

(a) Obtaining an understanding of the management's procedures set up to identify subsequent events.

(b) Inquiring of the management w.r.t the occurrence of any such subsequent events.

(c) Reading the minutes of the meetings of the board held after the balance sheet date during this period.

(d) Getting the Interim financial statements prepared till the date of the audit report mandatorily as a condition to issue the audit report.

3. W.r.t the first audit report dated 15.07.2026, which type of opinion was most likely provided by her?

(a) Modified opinion.

(b) Unqualified opinion.

(c) Disclaimer of opinion.

(d) Including a statement in Emphasis of Matter/Other matters para.

4. W.r.t the new audit report issued, which type of opinion is most appropriate?

(a) Disclaimer of opinion.

(b) Unqualified opinion.

(c) Adverse opinion.

(d) Unqualified opinion and a statement in Emphasis of Matter/Other matters para.

5. The fire event occurring on 27.6.2026 in the company's plant requires the following action on part of management: -

(a) Disclosure in notes to accounts.

(b) Adjustment in financial statements.

(c) Waiting for the insurance company to settle the claim.

(d) Preparing financial statements afresh.

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Answers to Integrated Case Scenario 1

1. (c) **2.** (d) **3.** (a) **4.** (d) **5.** (a)

Case Scenario 2

CA Namit, a partner in M/s J & Associates, is carrying out a statutory audit of M/s XYZ Gears Ltd. for the Financial Year 2025-26 and is in the process of issuing an audit report. His articled trainee, Manpreet, is very curious about knowing the various facts relating to the consideration of Standards on Auditing while carrying out an audit and issuing the audit report.

She asks CA Namit about the relevance of the Going concern assumption in their audit and further reporting to which CA Namit explains to her that both parties have got their own responsibilities w.r.t this accounting assumption. The management of the company has its own set of responsibilities while reporting upon the same is a very strict and sensitive matter for the auditor as per the requirement of the relevant standard on auditing.

He tells Manpreet to prepare a list of procedures as she thinks that an auditor should carry out when he identifies that the company is facing a downfall in business never seen before due to newer technology in the market and other competitors having sprung up swiftly adopting new technology.

He finds that this condition may cast significant doubt on the company's ability to continue as a going concern.

Manpreet thinks and researches and hands over a list of audit procedures to CA Namit for a final discussion. CA Namit clarifies accordingly. CA Namit concludes that the use of a going concern basis of accounting is appropriate in this company's case, but a material uncertainty exists as to the future prospects of the current business. However, the management has made an appropriate disclosure w.r.t such material uncertainty in the financial statements.

Manpreet's list of audit procedures includes: -

(I) Requesting management to make its assessment relating to the company's ability to continue as a going concern.

(II) Evaluating management's plan of future actions.

(III) Make a specific assessment of the company's ability to continue as a going concern.

(IV) Analysing the cashflow forecast of the company.

(V) Considering the additional facts or information available from the date of management's assessment.

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(VI) Make appropriate disclosures in the financial statements in connection with going concerns.

(VII) Requesting Written Representation from management regarding the plans for future actions and the feasibility of these plans.

(VIII) Writing a para addressed to the stakeholders in the audit report citing the results of procedures adhered to relating to the going concern assumption.

Keeping in view above, answer the following questions: -

1. CA Namit tells Manpreet about the auditor's responsibilities in the above case on the matter under discussion. Which of the following doesn't fall under the auditor's responsibilities?

(a) Obtaining sufficient and appropriate audit evidence on the matter under discussion.

(b) Conclude on the appropriateness of the management's use of going concern.

(c) Assessing whether a material uncertainty exists about the company's ability to continue as a going concern.

(d) Guarantee the company's ability to continue as a going concern based upon his audit procedures.

2. Identify which set of audit procedures are relevant in the above case scenario as per the list prepared by Manpreet.

(a) (I), (II), (IV), (V) & (VII).

(b) (I), (III) & (V).

(c) (II), (IV), (VI), (VII) & (VIII).

(d) (I), (II), (III), (IV) & (V).

3. CA Namit's conclusion in the above case will lead him to give which type of audit opinion from the following?

(I) Modified opinion.

(II) Unmodified opinion.

(III) A separate section "Material uncertainty w.r.t Going concern" in his audit report.

(a) (I) only.

(b) (II) only.

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(c) (I) & (III).

(d) (II) & (III).

4. Consider the following statements: -

Statement I: - The Management is under a responsibility to make specific assessment of the company's ability to continue as a going concern.

Statement II:-. The Management is under a responsibility to make appropriate disclosures in connection with going concern in the financial statements.

(a) Statement I is correct only.

(b) Statement II is correct only as Statement I falls under the auditor's responsibilities.

(c) Both statements are correct.

(d) Both statements are incorrect.

5. Which of the following is most appropriate regarding "going concern" assumption?

(a) It signifies that company is reflecting net losses in its financial statements.

(b) It signifies that company is not modernising its plant and machinery.

(c) It signifies that company has no intention of curtailing materially the scale of its operations in foreseeable future.

(d) It signifies that assets are likely to be recorded at the prices they would fetch.

Answers to Integrated Case Scenario 2

1. (d) **2.** (a) **3.** (d) **4.** (c) **5.** (c)

Case Study

Infinity Hospitality Private Limited was established in 1996 and was in the business of running hotels in tourist destinations in state of Kerala. It took leased properties on long-term leases ranging from 10 to 12 years, most with a lock-in of a whole term. The terms did not cover the *force majeure clause*. The company was family-owned business and had created a good reputation as value for a money-budget hotel. Most of the time, hotels clocked 60 to 75% occupancy rate, and during the festive season/ vacations, hotel business clocked 100% Occupancy.

The capital structure of the company was debt oriented and over-leveraged.

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Primary working capital was blocked in maintaining and upkeeping the leased properties, running the restaurant, leases, food and beverages, salary, Director's remuneration etc.

The owners looked at the business as a cash cow and did not plough back the funds to expand the business but were content with the decent profits the hotels were generating.

As the properties were leased and not owned, most of the cash flow generated from operations was used in servicing the property and huge loans from financial institutions. What was left was withdrawn as Directors' remuneration and dividend.

Everything was going on smoothly. However, there were flash floods in Kerala due to unprecedented rains. There were landslides and roads were blocked. The entire tourist season was washed away due to infrastructural challenges. Accessibility to resorts and hotels was badly hindered. Logistics support took time to reach in far flung areas. Visit to the *"The God's own country"* was last on the mind of tourists. The company was hardly trying to get back to some semblance of normalcy when pandemic struck. It was double whammy for the company.

The impact on travel, tourism and hospitality business was very severe. The management of Infinity Hospitality Private Limited believed that bad days would end soon and the business would be back to normal. They also were optimistic about the government coming up with support for the industry and were hopeful of negotiating with lessors and Financial Institutions for relief. They decided on humanitarian grounds not to terminate the employees and continued paying them a regular salary, maybe deferring 25% to be paid after one year. The immediate fallout was on the top line as suddenly, the business stopped.

The auditors, M/s XYZ and Associates, were conducting the audit of the company and were grappling with the situation and are seeking your guidance for the course of action they need to follow.

Theoretical Questions

Based on the case scenario, you are required to provide your answers to the following:-

1. *What additional audit procedures must the auditor undertake as per requirements of SA 570 based on the facts given in the case?*

2. *According to your judgment, what risk assessment procedures should the auditor consider for arriving at a conclusion based on the management assertion of the entity being Going Concern?*

3. *What should be approach of the auditor if the management agrees that the material uncertainly exists, but the entity is a Going Concern? Also discuss reporting requirements.*

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4. *What if the auditor believes, on the basis of his additional audit procedures conducted to conclude that the entity is not a Going Concern, but the management is not accepting the same? What course of action the auditor needs to undertake?*

5. *What kind of written representation does the auditor need to obtain in case of the scenario covered in Q3 above?*

Multiple Choice Questions

1. *Which of the following is not a financial event/ condition that may cast significant doubt on companies ability to continue as a going concern as per SA 570?*

   (a) *Change from credit to cash on delivery model with suppliers*

   (b) *Arrears or discontinuance of dividend*

   (c) *Opening of a new chain of hotels by renowned competitor near the entity's area*

   (d) *Adverse key financial ratios*

2. *Please choose the mitigating measure as the management is unable to pay lease rentals.*

   (a) *Cancel the lease*

   (b) *Restructure the lease agreement and negotiate for deferment and relief*

   (c) *Terminate the employees and pay the lessor*

   (d) *All the above*

3. *Which one of the following is not a responsibility of the auditor relating to communicating events or conditions identified that may cast significant doubt on the entity's Going Concern assertion?*

   (a) *Perform additional audit procedures to identify events/ conditions beyond 12 months from the date of financial statements*

   (b) *Whether the events constitute a material uncertainty*

   (c) *The adequacy of related discloses in the financial statements*

   (d) *The implications for the auditor's report*

4. *Written Representation need to be mandatorily obtained from:*

   (a) *Audit Committee*

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(b) *Client relationship Managers*

(c) *Company Secretary*

(d) *CFO*

5. *Which of the following is not main pillar of written representations?*

(a) *The management responsibility for preparation of financial statement*

(b) *Assertion related to completeness*

(c) *Assertion related to access to data and information*

(d) *Written representation provides sufficient appropriate audit evidence*

Answers to Theoretical Questions

1. In the given case scenario the events and conditions have been identified which cast significant doubt on the entity's ability to continue as a Going Concern, the auditor needs to obtain sufficient appropriate audit evidence to determine whether or not material uncertainty and gather evidence including of mitigating factors. It can be done by performing following additional procedures: -

- Analysing and discussing cash flow, profit and other relevant forecast with management.
- Analysing and discussing the entity's latest available interim financial statement.
- Reading the terms of loan agreements and determining whether any have been breached.
- Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.
- Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
- Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third party and assessing the financial ability of such parties to provide additional funds.
- Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.

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- Confirming the existence, terms and adequacy of borrowing facilities.
- Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
- Evaluating management's plans for further actions in relation to its going concern assessment, whether the outcome of these plan is likely to improve the situation and whether the management's plans are feasible in the circumstances.
- Evaluating management's plans for future actions may include inquiries of management as to its plan for future action, including, for example, its plan to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.
- Considering whether any additional facts or information have become available since the date on which management made it assessment.
- Requesting written representation from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.

2. When performing risk assessment procedures as required by SA 315, the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue the going concern. In so doing, the auditor shall consider whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern.

- The auditor shall discuss the assessment with management and determine whether management has identified events and conditions that, individually or collectively, cast significant doubt on the entity's ability to continue as a going concern and if so, management's plan to address them.
- The auditor shall specifically draw attention of Management on following events or condition and get the response on how they plan to address them:

The company is debt heavy and over leveraged. The leased properties are having considerable lock-in period with absence of force majeure clause. There are no contingency reserves available with company. All these factors shall be taken into account while performing risk assessment procedures.

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3. If the auditor concludes that the management's use of going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditors shall determine whether the financial statements:

(a) Adequately disclose the principal events or conditions that make a significant doubt on the entity's ability to continue as a going concern and management's plan to deal with these events or conditions, and

(b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on entity's ability to continue as a going concern and therefore, that it may be unable to realize its assets, and discharge its liabilities in the normal course of business.

(c) The disclosures may include:

i. Management's evaluation of the significance of the events or conditions relating to the entity's ability to meet its obligations; or

ii. Significant judgements made by management as a part of its assessment of the entity's ability to continue as a going concern

iii. Disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of the occurrence.

iv. The auditor shall express an unmodified opinion and the auditor's reports shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to:

- Draw attention to the note in the financial statement that discloses the events or conditions and
- State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and the auditor's opinion is not modified in respect of the matter and how the matter was addressed in the audit.

4. If management has prepared financial statements using the Going Concern assertion to which auditor differs as according to his judgement, the Going Concern assertion by the management is not appropriate, then the auditor is required to express an adverse opinion.

5. The auditor needs to obtain written representation from management and where appropriate, those charged with governance, regarding their plans for future action and the feasibility of these plans.

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Answers to Multiple Choice Questions

1. (c) **2.** (b) **3.** (a) **4.** (d) **5.** (d)

Key Takeaways

- 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 are known as subsequent events.
- Such events may be those that provide evidence of conditions that existed at the date of the financial statements and those that provide evidence of conditions that arose after the date of the financial statements.
- SA 560 deals with the auditor's responsibilities relating to subsequent events in an audit of financial statements.
- 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.
- Going concern is one of the fundamental accounting assumptions. The enterprise is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.
- SA 570 Going Concern deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.
- The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern. Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's consideration of management's use of the going concern basis of accounting.
- If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern through performing additional audit procedures, including consideration of mitigating factors.
- A written representation is a written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. Written representations in this

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context do not include financial statements, the assertions therein, or supporting books and records.

- Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.
- SA 580 Written representations deals with the auditor's responsibility to obtain written representations from management and, where appropriate, those charged with governance.

Note:

Content of SA 560 "Subsequent Event"; SA 570 "Going Concern" and SA 580 "Written Representation" is covered in depth at Intermediate level. Thus, application part of above SAs may be discussed in the form of Case Study at Final level.

Student may note that SA 560, SA 570 and SA 580 are covered in chapter 7: Completion and Review at Intermediate level, available at: https://resource.cdn.icai.org/93338bos-aps5884-ch7.pdf

For a concise revision of the key concepts covered in this chapter, students may refer to the Saransh Booklet for Paper 3: Advanced Auditing, Assurance and Professional Ethics, which serves as a useful last-mile revision resource for examination preparation. Saransh Booklet can be accessed at **https://boslive.icai.org/AAAPE_SARANSH.pdf**

TEST YOUR KNOWLEDGE

Theoretical Questions

1. *Ramadhan & Co. are the auditors of XYZ Company Ltd. for the year ended on 31/03/2026. The Audit Report for that year was signed by Ramadhan & Co. on 04/05/2026. The Annual General Meeting was decided to be held during the month of August 2026. On 06/05/2026, the Company had received a communication from the Central Government that an amount of₹ 5800 crore kept pending on account of incentives pertaining to Financial Year 2025-26 had been approved and the amount would be paid to the Company before the end of May 2026. To a query to Chief Financial officer of the Company by the Board, it was informed that this amount had not been recognised in the Audited Financial Statements in view of the same not being released before the close of the Financial Year and due to uncertainty of receipt. Now, having received the amount, the Board of Directors wished to include this amount in the Financial Statements of the Company for the Financial Year ended*

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on 31/03/2026. On 08/05/2026, the Board amended the accounts, approved the same and requested the Auditor to consider this event and issue a fresh audit report on the Financial Statements for the year ended on 31/03/2026. Analyse the issues involved and give your views as to whether or not the Auditors could accede to the request of the Board of Directors.

2. *M/s Airlift Ltd., carrying on the business of passenger transportation by air, is running into continuous financial losses as well as reduction in sales due to stiff competition and frequent break down of its own aircrafts. The Financial Statements for the Year ended on 31/03/2026 are to be now finalized. The Management is quite uncertain as to its ability to continue in near future and has informed the Auditors that having seized of this matter, it had constituted a committee to study this aspect and to give suggestions for recovery, if any, from this bad situation. Till the study is completed, according to the Management, the issue involves uncertainty as to its ability to continue its business and it informs the Auditor that the fact of uncertainty clamping on the "Going Concern" would suitably be disclosed in notes to accounts. State the reporting requirement if any, in the Independent Auditor's Report in respect of this matter.*

3. *PRSH & Co is the statutory auditor of Make My Journey Ltd. The company is in the business of tours and travels. The annual turnover of the company is ₹ 2000 crores and profits are ₹ 190 crores. During the planning meeting of the management and the auditors, it was discussed that the management needs to provide written representation letter to the auditors for the preparation of the financial statements and for the completeness of the information provided to the auditor. At the time of closure of the audit, there has been some confusion about the requirements of the written representation letter. Management argued that representation need not be written, it can also be verbal which has been provided to the audit team during the course of their audit. Auditors have completed their documentation and hence in a way, representation based on verbal discussions with the auditors has also got documented. Auditors explained that this is mandatory to obtain written representation in accordance with the requirements of SA 580. However, still some confusion remains regarding the date and period covered by the written representation. You are required to advise about the date of, and period covered by written representation in view of SA 580.*

4. *CA Shobit is conducting an audit of XYZ Ltd. for the year 2025-26. The company is engaged in the export of handicraft items in Europe. The audit is nearing completion in the month of July 2026. However, it becomes known to CA Shobit that one of overseas buyers has made a legal claim against the company on 1st June 2026 for injury caused to a customer of one European buyer due to sub-standard dyes used in rugs of one lot of order shipped in*

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August 2025. The management of the company has decided to agree to an out of court settlement of ₹ 4 crore to protect its reputation. The financial statements of the company are silent on this issue. Discuss, how, CA Shobit should proceed to deal with above issue.

5. *CA N is carrying out an audit of restated financial statements of BQR Limited for past 3 financial years i.e. 2025-26, 2024-25 and 2023-24 for onward submission to SEBI pursuant to their upcoming IPO (Initial Public Offer). CA N is planning to issue an Audit Report on 5th August, 2026 covering these restated financial statements. Before issuing the audit report, CA N requested Management Representation Letter from the management of the Company for this assignment. The Management of the Company provided Management Representation Letter dated 1st April, 2026 covering the period of financial year 2025-26 only as they were not in position to provide for the financial year 2024-25 and 2023-24 because they were not in place during that period.*

   How would CA N deal with the above situation as per relevant Standard on Auditing?

6. *Mudit & Associates is appointed as Statutory Auditors of GRF Private Limited for the financial year 2025-26. The company is into the business of Health Club, Fitness Centre and gym costumes. CA M is the Engagement Partner for the audit assignment. CA M observed the following points while auditing:*

   (i) Customer's base is reducing continuously due to tough competition and discount war existing in the market.

   (ii) Payments of creditors are delayed and made with overdue interest.

   (iii) Company has not been able to pay the salaries of staff and trainers on time.

   (iv) Key financial ratios of the company, like current ratio, debt-service coverage ratio, are in the red and have deteriorated considerably as compared to last year.

   (v) The company has requested its bankers to provide it with additional working capital credit facilities of ₹ 1.5 Crores, but bankers are not considering the company's proposal favorably.

   What audit procedures should be followed by CA M considering the above circumstances as per SA 570 - "Going Concern"? How auditor should deal if the use of going concern basis of accounting is appropriate, but a material uncertainty exists, and adequate disclosure of material uncertainty is made in the financial statements?

7. *The audit report of Rare (P) Ltd for F.Y. 2025-26 was issued by SRM & Co. on 23rd July, 2026. However, a case was filed against Rare (P) Ltd on 9th August, 2026, with the*

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Civil Court, with respect to an incident caused in its factory on 24th January, 2026, the future outcome of which may result into paying heavy penalty by Rare (P) Ltd, which was informed to Mr. Rishabh Pandey, the partner of SRM & Co.

Mr. Rishabh discussed the said matter with the management, and it was determined to amend the financial statements for F.Y. 2025-26. Further, Mr. Rishabh inquired how the management intended to address the said matter in the financial statements to which he was told that the said matter was going to be disclosed as a "Contingent Liability for a Court case" to the foot note in the balance sheet with no additional disclosures.

The management told Mr. Rishabh that such disclosure was enough as he would be further going to provide description of the said court case and its outcome in the 'Emphasis of Matter' paragraph in his amended audit report.

In the context of aforesaid case-scenario, please answer to the following questions: -

(i) Whether Mr. Rishabh on behalf of SRM & Co., has properly adhered to his responsibilities in accordance with SA 560, on becoming aware of the court case filed against Rare (P) Ltd?

(ii) Whether the contention of management of Rare (P) Ltd is valid with respect to the disclosure of court case in the financial statements?

8. Udit & Co. is the statutory auditor of Fun Journey Ltd., a company engaged in the tours and travel business. The company has an annual turnover of ₹ 1,200 crores and profits of ₹ 150 crores. While planning, the auditors discussed the requirement for a written representation letter from management for confirming that:

(i) The auditor is provided with all relevant information and access as agreed in the terms of the audit engagement; and

(ii) All transactions have been recorded and are reflected in the financial statements

As the audit was near to completion, the auditor disagreed with the management on one of the matters including need of written representation contending that verbal confirmations given during the audit should be sufficient. Thus, separate written representation is not required. Udit & Co., however, explained that under SA 580 obtaining a formal written statement from management is mandatory. Fun Journey Ltd. refuses to provide a written representation letter, despite the auditor's several requests.

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(a) Whether the contention of auditor for seeking written representation letter is justified?

(b) What should be the form of such written representation?

(c) How should the auditor proceed if management refuses to provide the written representation?

9. CA Deepa is the statutory auditor of SGP Textiles Ltd. for the FY 2025-26 and is in the process of finalizing the audit report.

During the course of the audit CA Deepa obtained information indicating that SGP Textiles Ltd. is experiencing severe liquidity crisis arising from a sudden shift in market demand and cancellation of its largest export order. As at the Balance Sheet date, the company's current liabilities exceed its current assets and it has defaulted in repayment of certain borrowings. Management has disclosed in the notes to the financial statements that these events or conditions indicate material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern. However, the financial statements for the FY 2025-26 have been prepared on going concern basis, based on management's expectation that a proposed merger with a larger conglomerate will be completed and will stabilize the company's financial position.

Analyze and state the reporting responsibilities of CA Deepa in the Independent Auditor's Report of SGP Textiles Ltd. in accordance with the relevant applicable Standard on Auditing.

10 CA Jin, a recently qualified practicing Chartered Accountant, got his first audit assignment of Ordinary (P) Ltd. for the financial year 2025-26. He obtained all the relevant appropriate audit evidence for the items related to Statement of Profit and Loss. However, while auditing the Balance Sheet items, CA Jin failed to obtain sufficient audit evidence, such as confirmations, for the outstanding Accounts Receivable amounting to ₹ 250 lakhs, continued as it is from the last year, on the affirmation of the management that there is no receipts and further credits during the year.

Relying merely on the management's affirmation that there were no receipts or further credits during the year, CA Jin excluded the audit of accounts receivable from his audit program, assuming that the amount pertained to the prior year, which had already been

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audited by the predecessor auditor. Comment on the appropriateness of CA Jin's approach.

11. *You are the auditor of SAFE Ltd., which is in the business of supplying food products to various airline companies operating in aircrafts in domestic circle only. As per terms of agreement with airlines, the company is required to maintain stock of various non-perishable food items sufficient for the coming one month (average holding of inventory to the tune of ₹ 120 Crores). The payment terms have been settled, and the company receives payment in 45 days after the supply of goods.*

    Business was running smoothly till 31st March 2026. However, in the first week of April 2026, a nationwide strike by airline employees led to the complete suspension of domestic flight operations across the country for an indefinite period. Consequently, the business of SAFE Ltd. also got severely affected and the scheduled supplies of goods to airlines also were not made. Further, the liquidity position of airline companies got hit and the scheduled payments were also not received on due dates. As the auditor of SAFE Ltd. what audit procedures would you perform to ensure that all subsequent events are considered, so that financial statements for the year ended 31st March 2026 represent true and fair view?

12. *During the audit of the financial statements of KIN Ltd. for the year ended 31st March 2026, the auditor observed that the company has suffered recurring losses and has negative operating cash flows. Management has prepared the financial statements on a going concern basis and has disclosed in the notes to accounts the major events and conditions creating financial difficulty. The disclosures also include management's plans to improve liquidity and clearly state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern.*

    After evaluating the available audit evidence, the auditor concluded that management's use of the going concern basis of accounting is appropriate, and the disclosures made in the financial statements regarding the material uncertainty are adequate.

    As the auditor of KIN Ltd., explain how the above matter will be reported in the auditor's report in accordance with the relevant Standard on Auditing.

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Answers to Test your Understanding

1. The given situation provides evidence of conditions that existed at the date of financial statements. Initially, the company had lodged claim of ₹1 crore and the same is reflected as claim receivable in financial statements as on 31st March, 2026.

However, subsequent events occurring have provided evidence that claim was settled for ₹ 45 lacs only. Such a settled amount has already been accepted by the company by providing its consent. Therefore, such events have provided fresh information about items included in financial statements.

Further, the performance of substantive procedures has been finished implying that the audit report is not yet issued.

Therefore, financial statements as on 31st March, 2026 should be adjusted to reflect fresh information emanating from described events and management should be asked to take appropriate action in this regard so that adjustment pertaining to above is properly reflected in financial statements in accordance with applicable financial reporting framework.

2. In the given situation, dividend has been proposed by Board of Directors on 17th April, 2026. It is an example of conditions that arose after the reporting period. No liability exists for the company on the reporting date because there is no obligation to pay at the reporting date in accordance with Ind AS 1.

Therefore, the above situation does not require recognition of the above proposed dividend in financial statements. It is an example of events which do not require adjustments. However, it should be disclosed in financial statements in notes to accounts. Therefore, it should be ensured that it is disclosed in notes to accounts in financial statements. He should verify in accordance with SA 560 that it is disclosed in notes to accounts.

3. In accordance with SA 570,"Going Concern", if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern by performing additional audit procedures, including consideration of mitigating factors.

Where the entity has prepared a cash flow forecast, and analysis of forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions, it includes

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(i) Evaluating the reliability of the underlying data generated to prepare the forecast and

(ii) Determining whether there is adequate support for the assumptions underlying the forecast.

In the above situation, cash flow forecast has been prepared by management. Therefore, she should carefully evaluate assumptions underlying forecast and also reliability of data to prepare the forecast. For example: -

- She should verify assumption regarding fresh batch of livestock. The bankers have not provided fresh credit facilities. How funds from the same would be arranged? The reasonability of assumption in cash flow forecast needs to be looked into.
- She needs to check loan sanction letters/agreement to verify when repayments are beginning to see their accuracy in cash flow forecasts.
- The company plans to avail longer credits from animal feed suppliers. In the downturn situation of the company, how would suppliers extend longer credits? This is going to have effect on the cash flow forecast.
- Whether company has accounted for increased expenditure on preventive health check-up, vaccination and more frequent visits of veterinary staff in cash flow forecast.
- Since villagers have accused the company of spreading air pollution, how does the company plan to deal with the same? Whether any proposed expenditure in this regard is accounted for in the cash flow statement. She may also consider other implications of this issue and possible effect on cash flows.

4. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the financial statements is inappropriate, the auditor shall express adverse opinion.

The requirement for an auditor to express an adverse opinion applies regardless of whether or not the financial statements include disclosure of the inappropriateness of management's use of the going concern basis of accounting.

Therefore, even if management discloses that its use of going concern assumption of accounting is inappropriate, it would have no impact on auditor's opinion. He would need to express adverse opinion.

5. The date of the written representations shall be as near as practicable to, but not after, the date of the auditor's report on the financial statements. As the auditor is concerned with

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events occurring up to the date of the auditor's report that may require adjustment to or disclosure in the financial statements, the written representations are dated as near as practicable to, but not after, the date of the auditor's report on the financial statements.

In the given situation, written representation is dated 15th April 2026. The audit report is dated 31st July 2026. There is a considerable lag between date of written representations and date of audit report.

It could signify that all subsequent events after date of financial statements requiring adjustments or disclosure may not have been adjusted or disclosed in the financial statements by management.

As audit report is dated 31St July, 2026, it reflects that auditor has considered subsequent events occurring between date of financial statements and date of auditor's report. However, written representations pertain to 15th April 2026.

Hints /Answers to Theoretical Questions

1. **Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued:** As per SA 560, "Subsequent Events", the auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, when, after the date of the auditor's report but before the date the financial statements are issued, 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 the auditor's report, the auditor shall

   (i) Discuss the matter with management and, where appropriate, those charged with governance.

   (ii) Determine whether the financial statements need amendment and, if so,

   (iii) Inquire how management intends to address the matter in the financial statements.

   If management amends the financial statements, the auditor shall carry out the audit procedures necessary in the circumstances on the amendment. Further, the auditor shall extend the audit procedures and provide a new auditor's report on the amended financial statements. However, the new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.

   In the instant case, XYZ Company Ltd. received an amount of ₹ 5800 crore on account of incentives pertaining to the year 2025-26 in the month of May 2026 i.e. after finalisation of

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financial statements and signing of audit report. The Board of Directors of XYZ Ltd. amended the accounts, approved the same and requested Ramadhan & Co. (auditor) to consider this event and issue a fresh audit report on the financial statements for the year ended on 31-03-2026.

After applying the conditions given in SA 560, Ramadhan & Co. can issue new audit report subject to date of audit report which should not be earlier than the date of approval of the amended financial statements.

2. **Reporting requirements in case of Uncertainty clamping on the Going Concern:** As per SA 570 "Going Concern", if the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements : (i) adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and (ii) disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

   If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to:

   (i) Draw attention to the note in the financial statements that discloses the matters set out above; and

   (ii) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

   In the instant case, M/s Airlift Ltd. is running into continuous financial losses as well as reduction in sales due to stiff competition and frequent break down of its own aircrafts and management of Airlift Ltd. is uncertain as of its ability to continue in near future. Therefore, a committee has been constituted to study this aspect and till the time study is completed management accordingly decided to suitable disclose this aspect in notes to accounts. Therefore, the auditor should disclose about the material uncertainty and express an unmodified opinion and in his audit report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to draw attention to the note in the financial

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statements that discloses the matters set out above; and state that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

3. As per SA 580, "Written Representations", as written representations are necessary audit evidence, the auditor's opinion cannot be expressed, and the auditor's report cannot be dated, before the date of the written representations. Furthermore, because the auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to or disclosure in the financial statements, the written representations are dated as near as practicable to, but not after, the date of the auditor's report on the financial statements.

In some circumstances it may be appropriate for the auditor to obtain a written representation about a specific assertion in the financial statements during the course of the audit. Where this is the case, it may be necessary to request an updated written representation.

The written representations are for all periods referred to in the auditor's report because management needs to reaffirm that the written representations it previously made with respect to the prior periods remain appropriate. The auditor and management may agree to a form of written representation that updates written representations relating to the prior periods by addressing whether there are any changes to such written representations and, if so, what they are.

Situations may arise where current management were not present during all periods referred to in the auditor's report. Such persons may assert that they are not in a position to provide some or all of the written representations because they were not in place during the period. This fact, however, does not diminish such persons' responsibilities for the financial statements as a whole. Accordingly, the requirement for the auditor to request from them written representations that cover the whole of the relevant period(s) still applies.

4. In the given case, the auditor has come to know the legal claim against the company before the issuance of the audit report. It has also come to his knowledge that the management of the company has agreed to an out of court settlement of ₹ 4 crore.

This is an example of a subsequent event between the date of the financial statements and the date of the auditor's report. It provides evidence of conditions that existed at the date of the financial statements and requires adjustment in financial statements.

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Further as per SA 560, "Subsequent Events", the auditor shall request management and, where appropriate, those charged with governance, to provide a written representation in accordance with SA 580, "Written Representations" that all the 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.

CA Shobit should ensure that appropriate adjustments and disclosures are made by the management. In the absence of the same, he should consider the impact of the said event and report accordingly.

5. In the given situation, CA N is carrying out an audit of restated financial statements of BQR Limited for past 3 financial years i.e., 2025-26, 2024-25 and 2023-24 so he requested Management Representation Letter from the management of the Company for this assignment before issuance of the report. The management of the Company provided the Management Representation Letter only for the financial year 2025-26 as they were not in place during that period.

As per SA 580, "Written Representations", as written representations are necessary audit evidence, the auditor's opinion cannot be expressed, and the auditor's report cannot be dated before the date of the written representations.

As per SA 560, "Subsequent Events", the auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to or disclosure in the financial statements, the written representations are dated as near as practicable to, but not after, the date of the auditor's report on the financial statements.

In some circumstances it may be appropriate for the auditor to obtain a written representation about a specific assertion in the financial statements during the course of the audit. Where this is the case, it may be necessary to request an updated written representation.

The written representations are for all periods referred to in the auditor's report because management needs to reaffirm that the written representations it previously made with respect to the prior periods remain appropriate. The auditor and management may agree to a form of written representation that updates written representations relating to the prior periods by addressing whether there are any changes to such written representations and, if so, what they are.

Situations may arise where current management were not present during all periods referred to in the auditor's report. Such persons may assert that they are not in a position to provide some or all the written representations because they were not in place during the period. This

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fact, however, does not diminish such persons' responsibilities for the financial statements as a whole.

Accordingly, the requirement for the auditor to request from them written representations that cover the whole of the relevant period(s) still applies. Therefore, as per the above requirement of SA 580 CA N should take written representation letter from management of BQR Limited for the financial year 2024-25 and 2023-24 also.

In case the management of BQR Limited does not provide written representation as requested, the auditor shall discuss with the management, re-evaluate the integrity of management, and take appropriate actions including the impact on the audit report as per SA 705.

6. As per SA 570, "Going Concern", if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include:

(a) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.

(b) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.

(c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions:

  (i) Evaluating the reliability of the underlying data generated to prepare the forecast; and

  (ii) Determining whether there is adequate support for the assumptions underlying the forecast.

(d) Considering whether any additional facts or information have become available since the date on which management made its assessment.

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(e) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.

In the given case, CA M has observed such points that may cast significant doubt on the entity's ability to continue as a going concern. Therefore, CA M should follow audit procedures such as:

- Review of management's assessment of the company's ability to continue as a going concern.
- Examine and challenge the reasonableness of the company's cash flow forecasts and key assumptions.
- Review events after the reporting period that might affect the going concern assumption, such as further financial deterioration or inability to secure financing.
- Analysis of the company's key financial ratios and compliance with loan agreements to assess liquidity and solvency.
- Review of the company's challenges and efforts to secure additional financing and the reasons for the bank's reluctance to provide further credit.
- Assess the impact of declining customer base, delayed payments, and other operational challenges on the company's ability to continue as a going concern.

Further, as per SA 570 if adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to:

(a) Draw attention to the note in the financial statements that discloses the matters set out above; and

(b) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

7. (i) As per SA 560, 'Subsequent Events', the auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, when, after the date of the auditor's report but before the date the financial statements are issued, 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 the auditor's report, the auditor shall:

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(1) Discuss the matter with management and, where appropriate, those charge with governance,

(2) Determine whether the financial statements need amendment and, if so,

(3) Inquire how management intends to address the matter in the financial statements.

In the given case, on becoming aware of the court case filed against Rare (P) Ltd., Mr. Rishabh discussed the said matter with the management, and was determined to amend the financial statements. Also, he inquired how the management intended to address the said matter in the financial statements.

Thus, it can be said that Mr. Rishabh has properly adhered to his responsibilities in accordance with SA 560, on becoming aware of the court case filed against Rare (P) Ltd.

(ii) As per SA 706, 'Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report', an Emphasis of Matter paragraph is not a substitute for:

(a) A modified opinion in accordance with SA 705 (Revised) when required by the circumstances of a specific audit engagement;

(b) Disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or

(c) Reporting in accordance with SA 570 (Revised) when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.

In the given case, the management of Rare (P) Ltd. has presumed that as the auditor was going to provide a description of the said court case and its outcome in the 'Emphasis of Matter' paragraph in his amended audit report, there was no further need for it to provide additional disclosures about the court case in the financial statements.

The said contention of management of Rare (P) Ltd. is not valid as 'Emphasis of Matter' paragraph cannot be used as a substitute for disclosures required to be made in the financial statements as per the applicable financial reporting framework or that is otherwise necessary to achieve fair presentation, which is the responsibility of the management.

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8. (a) *As per SA 580, "Written Representations", the auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement.*

Further, the auditor shall request management to provide a written representation that:

(i) It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement.

(ii) All transactions have been recorded and are reflected in the financial statements.

In the given case, Fun Journey Ltd. refuses to provide a written representation letter, despite the auditor's several requests. Thus, in view of above the contention of auditor is correct.

(b) *The written representations as per SA 580, shall be in the form of a representation letter addressed to the auditor. If law or regulation requires management to make written public statements about its responsibilities, and the auditor determines that such statements provide some or all of the representations required, the relevant matters covered by such statements need not be included in the representation letter.*

(c) *As per SA 580, if management does not provide one or more of the requested written representations, the auditor shall:*

(i) Discuss the matter with management;

(ii) Re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and

(iii) Take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with SA 705 (Revised).

Furthermore, the auditor shall disclaim an opinion on the financial statements in accordance with SA 705 (Revised) if the auditor concludes that there is sufficient doubt about the integrity of management such that the written representations required are not reliable or management does not provide the written representations required.

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Thus, refusal to provide a written representation could impact the auditor's ability to obtain sufficient appropriate audit evidence, potentially leading to a modified audit report.

9. *In accordance with SA 570 "Going Concern", if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern by performing additional audit procedures, including consideration of mitigating factors.*

In the given case, SGP Textiles Ltd. is experiencing severe liquidity crisis arising from sudden shift in market demand and cancellation of its largest export order. Further, as at the Balance Sheet date, the company's current liabilities exceed its current assets and it has defaulted in repayment of certain borrowings. These conditions indicate existence of a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

However, the management has disclosed these matters in the notes to the financial statements for FY 2025-26 and has prepared the financial statements on going concern basis based on expectation that a proposed merger with a larger conglomerate is expected to stabilize the company's financial position.

As such, considering that the going concern assumption is appropriate but a material uncertainty exists, CA Deepa should:

(1) Express an unmodified opinion; and

(2) Include in his audit report, a separate section under the heading "Material Uncertainty Related to Going Concern" to:

(i) Draw attention to the note in the financial statements that discloses the matters; and

(ii) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

Thus, CA Deepa should report the matter in her Independent Auditor's Report in the above manner in accordance with SA 570.

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10. Verification of Accounts Receivable: As per SA 510, "Initial Audit Engagements – Opening Balances", while conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether-

(i) Opening balances contain misstatements that materially affect the current period's financial statements; and

(ii) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

When the financial statements for the preceding period were audited by another auditor, the current auditor may be able to obtain sufficient appropriate audit evidence regarding opening balances by perusing the copies of the audited financial statements.

Ordinarily, the current auditor can place reliance on the closing balances contained in the financial statements for the preceding period, except when during the performance of audit procedures for the current period the possibility of misstatements in opening balances is indicated.

For current assets and liabilities, some audit evidence about opening balances may be obtained as part of the current period's audit procedures, say, the collection of opening accounts receivable during the current period will provide some audit evidence of their existence, rights and obligations, completeness and valuation at the beginning of the period.

In addition, according to SA 580, "Written Representations", the auditor may consider it necessary to request management to provide written representations about specific assertions in the financial statements; in particular, to support an understanding that the auditor has obtained from other audit evidence of management's judgment or intent in relation to, or the completeness of, a specific assertion. Although such written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own for that assertion.

In the given case, the management of Ordinary (P) Ltd. has restrained CA Jin, its auditor, from obtaining appropriate audit evidence for balances of Accounts Receivable outstanding as it is from the preceding year. CA Jin, on believing that the preceding year balances have already been audited and on the statement of the

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management that there are no receipts and credits during the current year, therefore excluded the verification of Accounts Receivable from his audit programme.

Thus, CA Jin should have requested the management to provide written representation for their views and expressions; and he should also not exclude the audit procedure of closing balances of Accounts Receivable from his audit programme. Consequently, CA Jin shall also be held guilty for professional misconduct for not exercising due diligence, or grossly negligence in the conduct of his professional duties as per the Code of Ethics.

11. *As per SA 560, "Subsequent Events", 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.*

The auditor shall perform the procedures required in the above paragraph 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.

In the given case, the nationwide strike and suspension of domestic flight operations in April 2026, though occurring after the balance sheet date, constitutes a significant subsequent event that may impact the recoverability of receivables and valuation of inventory. Being the auditor of SAFE Ltd., to ensure that all subsequent events are considered so that financial statements for the year ending 31.03.2026 represent a true and fair view, 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:

(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

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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.

When, as a result of the procedures performed as required above, 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.

12. As per SA 570 "Going Concern", if the auditor concludes that the management's use of going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditors shall determine whether the financial statements:

(A) Adequately disclose the principal events or conditions that make a significant doubt on the entity's ability to continue as a going concern and management's plan to deal with these events or conditions, and

(B) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on entity's ability to continue as a going concern and therefore, that it may be unable to realize its assets, and discharge its liabilities in the normal course of business.

(C) The disclosures may include:

i. Management's evaluation of the significance of the events or conditions relating to the entity's ability to meet its obligations; or

ii. Significant judgements made by management as a part of its assessment of the entity's ability to continue as a going concern

iii. Disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of the occurrence.

iv. The auditor shall express an unmodified opinion and the auditor's reports shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to:

- *Draw attention to the note in the financial statement that discloses the events or conditions and*
- *State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability*

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to continue as a going concern and the auditor's opinion is not modified in respect of the matter and how the matter was addressed in the audit.

In the given case, it was observed that KIN Ltd. has incurred recurring losses and is facing negative operating cash flows, indicating financial difficulty. However, the management has prepared the financial statements on a going concern basis and has adequately disclosed the relevant events and conditions, along with its plans to improve liquidity, clearly stating regarding material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. Further, the auditor is also satisfied that the use of the going concern assumption is appropriate and the disclosures are adequate based on the audit evidence. Accordingly, the auditor shall express an unmodified opinion and include a separate paragraph under the heading "Material Uncertainty Related to Going Concern" in the auditor's report, drawing attention to the relevant disclosures without modifying the opinion in line with SA 570 (Revised) "Going Concern".

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