

**STATEMENT 3.252**  
**AUDITING GUIDELINE**  
**EVENTS AFTER THE BALANCE SHEET DATE**

**Introduction**

1. This guideline is intended to clarify the responsibilities of the auditor for examining and reporting upon events which occur after the date of the balance sheet. It also gives guidance on the procedures for the audit of events after the balance sheet date, and on the dating of the audit report.
2. The guideline is supplementary to and should be read in conjunction with auditing standards and related guidelines.
3. This guideline is written in the context of the audit of limited companies. However, its principles apply to the audit of other enterprises whose financial statements are intended to give a true and fair view. In other circumstances, the auditor will be guided by the terms of his particular appointment or by relevant legislation.
4. In the absence of specific provisions to the contrary, either in legislation or in the auditor's terms of appointment, the general principle holds that the auditor's responsibility to his client extends to the date on which he signs his audit report. Further, he may retain some responsibility after that date as described in this guideline. It is for this reason that the auditor should not confine himself to those events after the balance sheet date which are defined in Statement of Standard Accounting Practice 2.109 (SSAP 9) as "post balance sheet events" i.e. those events both favourable and unfavourable which occur between the balance sheet date and the date on which the financial statements are approved by the board of directors.

**Dating of the audit report**

5. The auditor should always date his audit report. The date used should, generally, be that on which he signs his report on the financial statements. The auditor should plan his work so that, wherever practicable, his report is dated as close as possible to the date of approval of the financial statements by the directors. If, for administrative reasons, final copies of the financial statements are not available at the date that the auditor declares, to the directors, that he is willing to sign his audit report, he

may use that date, provided the delay in the preparation of final copies is only of short duration. An example of such administrative reasons would be the non-availability, through illness or overseas location, of directors to sign the financial statements on behalf of the company.

6. The auditor's responsibility is to report on the financial statements as presented by the directors. Legally, such statements do not exist until they have been approved by the directors. It follows that the auditor can never date his report earlier than the date on which the complete financial statements were approved by the directors. Before signing his report, the auditor should obtain evidence that the financial statements have been approved by the directors. SSAP 9 requires disclosure of the date on which the directors approved the financial statements.
7. At the date on which the financial statements are approved by the directors, they do not have to be in the precise printed or typewritten form submitted to members. However, the auditor should satisfy himself that the approved financial statements are complete in all material respects. Accordingly, the financial statements approved by the directors should not leave unresolved any matters which require exercise of judgement of discretion (although they may omit items which merely require mechanical calculation: for example, the provision of a dividend at a rate already agreed by the directors). As compliance with the Companies Ordinance and Statements of Standard Accounting Practice may require the exercise of judgement or discretion, financial statements which do not take account of these matters cannot be regarded as complete in all material respects.

#### **Action up to the date of the audit report**

8. The auditor should take steps, as described in paragraph 15, to obtain reasonable assurance in respect of all significant events up to the date of his report. He should ensure that any such significant events are, where appropriate, accounted for or disclosed in the financial statements. If not, he should consider whether to qualify his report.

#### **Action after the date of the audit report**

9. After the date of the audit report the auditor does not have a duty to search for evidence of post balance sheet events. However, if before the General Meeting at which the financial statements are

laid before the members the auditor becomes aware of information, from sources either within or outside the company, which might have led him to give a different audit opinion had he possessed the information at the date of his report, he should discuss the matter with the directors. He should then consider whether the financial statements should be amended by the directors. If the directors are unwilling to take action which the auditor considers necessary to inform the members of the changed situation, the auditor should consider exercising his rights under section 141(7) of the Companies Ordinance to make a statement at the General Meeting at which the financial statements are laid before the members. He should also consider taking legal advice on his position. The auditor does not have a statutory right to communicate directly in writing with the members. (Where he wishes to resign or where it is proposed to remove him, sections 132 and 140A of the Companies Ordinance enable him to communicate in writing with the members via the company.)

10. If the directors wish to amend the previously approved financial statements after the auditor has signed his report but before they have been sent to the members, the auditor will need to consider whether the proposed amendments affect his report. His report, revised if necessary, should not be dated before the date on which the amended financial statements are approved by the directors. The auditor should take steps, as described in paragraph 15, to obtain reasonable assurance in respect of all significant events up to the date of his report on the amended financial statements.
11. Where, after the financial statements have been sent to the members, the directors wish to prepare and approve an amended set of financial statements to lay before the members in General Meeting, the auditor should perform the steps described in paragraph 15 before making his report on the amended financial statements. In this latter report he should refer to the original financial statements and his report on them.
12. If after the General Meeting the auditor becomes aware of information which suggests that the financial statements which were laid before that meeting are wrong, he should inform the directors. He should ascertain how the directors intend to deal with the situation, in particular whether they intend to communicate with the members. Where, in the auditor's opinion, the directors are not dealing correctly with the situation, he should consider taking legal advice on his position.

### **Procedures for the review of events after the balance sheet date**

13. Certain events and transactions occurring after the balance sheet date are examined by the auditor as part of his normal verification work on the balance sheet. For example, he may check cash received from certain debtors or the amounts realized from the sale of stock after the year end. In addition, the auditor should carry out audit procedures which are described as a "review of events after the balance sheet date".
14. The objective of the review of events after the balance sheet date is to obtain reasonable assurance that all such material events have been identified and, where appropriate, either disclosed or accounted for in the financial statements.
15. The review should consist of discussions with management relating to, and may also include consideration of:
  - (a) procedures taken by management to ensure that all events after the balance sheet date have been identified, considered and properly evaluated as to their effect on the financial statements;
  - (b) any management accounts and relevant accounting records;
  - (c) profit forecasts and cash flow projections, for the new period;
  - (d) known 'risk' areas and contingencies, whether inherent in the nature of the business or revealed by previous audit experience;
  - (e) minutes of shareholders', directors' and management meetings, and correspondence and memoranda relating to items included in the minutes;
  - (f) relevant information which has come to his attention from sources outside the enterprise, including public knowledge of competitors, suppliers and customers.

This review should be updated to a date as near as practicable to that of the audit report by making enquiries of management and considering the need to carry out further tests.

### **Contingencies**

16. As part of his review of events after the balance sheet date, the auditor should consider the existence of contingencies and their treatment in the financial statements. Statement of Standard Accounting Practice 2.108 (SSAP 8) "Accounting for contingencies"

requires accrual or, except where the possibility of loss is remote, the disclosure of material contingent losses, and disclosure of material contingent gains only if it is probable that the gain will be realized. The auditor will need to use his judgement in determining "remoteness" and "probability" in individual cases. He should pay particular regard to the different treatment required by the Standard, on grounds of prudence, for contingent gains on the one hand and contingent losses on the other.

### **Working papers and management representations**

17. The audit working papers should contain a record of the work carried out to identify events after the balance sheet date. Where discussions have taken place with the management regarding matters arising from the review of events after the balance sheet date, a note of the discussions should be retained by the auditor. The auditor may wish to obtain formal management representations about events after the balance sheet date or the fact that there have not been any. If such representations are obtained, they should be dated as close as possible to the date of the audit report.

### **Groups**

18. When the review of events after the balance sheet date is made in respect of consolidated financial statements, the auditor of the holding company will need to have regard to the work carried out in this area by the auditors of subsidiary and associated companies. In normal circumstances, audited financial statements for subsidiary and associated companies will be available to him at the time he signs his report on the consolidated financial statements, and the auditors of those companies will have carried out a review of the events up to the date of their reports. The auditor of the holding company will need to ensure that appropriate audit procedures are carried out to identify events after the balance sheet date which are of significance to the group between the dates of the reports of the auditors of subsidiary and associated companies and the date of his own report. Such audit procedures can include the performance by him of the steps, described in paragraph 15, in the context of the group as a whole. They may also include the performance of updated reviews by the auditors of subsidiary and associated companies.
19. The auditor of the holding company may wish to obtain management representations from its directors, not only in respect of the company but also in respect of the group. It is conceivable, for instance, that the holding company may be aware of, or have instigated, events which have not been communicated to the management of the subsidiaries.