

The Auditor's Report on Financial Statements Proposed Revisions to ISA 560

ISA 560, SUBSEQUENT EVENTS

Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the auditor's responsibility regarding subsequent events. In this ISA, the term "subsequent events" is used to refer to both events occurring between the date of the financial statements and the date of the auditor's report, and facts discovered after the date of the auditor's report. Deleted: period end

2. **The auditor should consider the effect of subsequent events on the financial statements and on the auditor's report.**

3. International Accounting Standard 10, "Events Occurring After the Balance Sheet Date," deals with the treatment in financial statements of events, both favorable and unfavorable, occurring after the date of the financial statements and identifies two types of events:
 - (a) Those that provide further evidence of conditions that existed at the date of the financial statements; and Deleted: Contingencies and
 - (b) Those that are indicative of conditions that arose subsequent to the date of the financial statements. Deleted: period end

Definitions

4. In this ISA, the following terms have the meanings attributed below:
 - (a) "Date of the financial statements" is the date of the most recent balance sheet currently being audited.
 - (b) "Date of approval of the financial statements" is the date that the entity's management or board of directors or similar body determines that a complete set of financial statements, including the related notes, has been prepared and approves such statements. The specific approval process followed by the entity may depend on legal or regulatory requirements in the jurisdiction, or may be determined by the entity in the absence of such requirements. There may be still be governance processes required by custom or regulation that may need to occur before the financial statements are considered "final". For example, in some jurisdictions, the entity may be required to submit its financial statements to its shareholders for approval, however, this will usually occur at a date substantially later than the date management approves the financial statements.
 - (c) "Date of the auditor's report" is the date of the completion of the audit. This is considered to be the date on which the auditor has obtained sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. The auditor may not yet have fulfilled all responsibilities related to the audit, for example, the auditor may not yet have had an opportunity to communicate the audit

matters of governance interest that arose from the audit to those charged with governance. However, the auditor has completed the work necessary to support the auditor's opinion on the financial statements. Frequently, this date will be the same as the "date of approval of the financial statements" but it could be later, such as when the auditor has not yet obtained all of the audit evidence necessary to support management's assertions regarding significant estimates, transactions or events at the time that management approves the financial statements.

(d) "Date the financial statements are issued" is the earlier of the date that the auditor's report and financial statements are made available widely and the date these are filed with a regulatory authority.

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

5 The auditor should perform procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the auditor's report that may require adjustment of, or disclosure in, the financial statements have been identified. These procedures are in addition to routine procedures which may be applied to specific transactions occurring after the date of the financial statements to obtain audit evidence as to account balances as at the date of the financial statements, for example, the testing of inventory cutoff and payments to creditors. The auditor is not, however, expected to conduct a continuing review of all matters to which previously applied procedures have provided satisfactory conclusions.

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6 The procedures to identify events that may require adjustment of, or disclosure in, the financial statements would be performed as near as practicable to the date of the auditor's report and ordinarily include the following:

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- Reviewing procedures management has established to ensure that subsequent events are identified.
- Reading minutes of the meetings of shareholders, the board of directors and audit and executive committees held after the date of the financial statements and inquiring about matters discussed at meetings for which minutes are not yet available.
- Reading the entity's latest available interim financial statements and, as considered necessary and appropriate, budgets, cash flow forecasts and other related management reports.
- Inquiring, or extending previous oral or written inquiries, of the entity's lawyers concerning litigation and claims.
- Inquiring of management as to whether any subsequent events have occurred which might affect the financial statements. Examples of inquiries of management on specific matters are:
 - The current status of items that were accounted for on the basis of preliminary or inconclusive data.
 - Whether new commitments, borrowings or guarantees have been entered into.
 - Whether sales of assets have occurred or are planned.
 - Whether the issue of new shares or debentures or an agreement to merge or liquidate has been made or is planned.
 - Whether any assets have been appropriated by government or destroyed, for example, by fire or flood.

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- Whether there have been any developments regarding risk areas and contingencies.
- Whether any unusual accounting adjustments have been made or are contemplated.
- Whether any events have occurred or are likely to occur which will bring into question the appropriateness of accounting policies used in the financial statements as would be the case, for example, if such events call into question the validity of the going concern assumption.

7. When a component, such as a division, branch or subsidiary, is audited by another auditor, the auditor would consider the other auditor's procedures regarding events after the date of the financial statements and the need to inform the other auditor of the planned date of the auditor's report.

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8. **When the auditor becomes aware of events which materially affect the financial statements, the auditor should consider whether such events are properly accounted for and adequately disclosed in the financial statements.**

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

9. The auditor does not have any responsibility to perform procedures or make any inquiry regarding the financial statements after the date of the auditor's report. During the period from the date of the auditor's report to the date the financial statements are issued, the responsibility to inform the auditor of facts which may affect the financial statements rests with management. However, in the event of a significant or unusual delay in the issuance of the financial statements and the auditor's report, the auditor considers obtaining an updated representation letter from management confirming that the written representations given by management at the date of the auditor's report remain valid and appropriate, and that there have been no changes in circumstances since the date of the auditor's report that would materially affect the financial statements. The updated management representation letter would be dated as close as possible to the date the financial statements are issued.

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10. **When, after the date of the auditor's report but before the date the financial statements are issued, the auditor becomes aware of a fact which may materially affect the financial statements, the auditor should consider whether the financial statements need amendment, should discuss the matter with management, and should take the action appropriate in the circumstances.**

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11. When management amends the financial statements, the auditor would carry out the procedures necessary in the circumstances and would provide management with a new report on the amended financial statements. The new auditor's report would be dated not earlier than the date of approval of the amended financial statements and, accordingly, the procedures referred to in paragraphs 5 and 6 would be extended to the date of the new auditor's report.

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12. **When management does not amend the financial statements in circumstances where the auditor believes they need to be amended and the auditor's report has not been**

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released to the entity, the auditor should express a qualified opinion or an adverse opinion, as described in ISA 701, Modifications to the Auditor's Report.

13. When the auditor's report has been released to the entity, the auditor would notify those persons ultimately responsible for the overall direction of the entity not to issue financial statements and the auditor's report thereon to third parties. If the financial statements are subsequently released, the auditor needs to take action to prevent reliance on the auditor's report. The action taken will depend on the auditor's legal rights and obligations and the recommendations of the auditor's lawyer.

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Facts Discovered After the Financial Statements Have Been Issued

14. After the financial statements have been issued, the auditor has no obligation to make any inquiry regarding such financial statements.

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15. When, after the financial statements have been issued, the auditor becomes aware of a fact which existed at the date of the auditor's report and which, if known at that date, may have caused the auditor to modify the auditor's report, the auditor should consider whether the financial statements need revision, should discuss the matter with management, and should take the action appropriate in the circumstances.

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16. When management revises the financial statements, the auditor would carry out the audit procedures necessary in the circumstances, would review the steps taken by management to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation, and would issue a new report on the revised financial statements.

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17. The new auditor's report should include an emphasis of a matter paragraph referring to a note to the financial statements that more extensively discusses the reason for the revision of the previously issued financial statements and to the earlier report issued by the auditor. The new auditor's report would be dated not earlier than the date of approval of the revised financial statements and, accordingly, the procedures referred to in paragraphs 5 and 6 would ordinarily be extended to the date of the new auditor's report. Local regulations of some countries permit the auditor to restrict the audit procedures regarding the revised financial statements to the effects of the subsequent event that necessitated the revision. In such cases, the new auditor's report would contain a statement to that effect.

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18. When management does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation and does not revise the financial statements in circumstances where the auditor believes they need to be revised, the auditor would notify those persons ultimately responsible for the overall direction of the entity that action will be taken by the auditor to prevent future reliance on the auditor's report. The action taken will depend on the auditor's legal rights and obligations and the recommendations of the auditor's lawyers.

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19. It may not be necessary to revise the financial statements and issue a new auditor's report when issue of the financial statements for the following period is imminent, provided appropriate disclosures are to be made in such statements.

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Offering of Securities to the Public

20. In cases involving the offering of securities to the public, the auditor should consider any legal and related requirements applicable to the auditor in all jurisdictions in which the securities are being offered. For example, the auditor may be required to carry out additional audit procedures to the date of the final offering document. These procedures would ordinarily include carrying out the procedures referred to in paragraphs 5 and 6 up to a date at or near the effective date of the final offering document and reading the offering document to assess whether the other information in the offering document is consistent with the financial information with which the auditor is associated.

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