

PROPOSED ISA 560 (REDRAFTED)
SUBSEQUENT EVENTS
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Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility relating to subsequent events in an audit of financial statements. (Ref: Para. A1)
2. Financial statements may be affected by certain events that occur after the date of the financial statements. Many financial reporting frameworks specifically refer to such events. For example, International Accounting Standard (IAS) 10, "Events After the Balance Sheet Date" deals with the treatment in financial statements of events, both favorable and unfavorable, that occur between the date of the financial statements (referred to as the "balance sheet date" in the IAS) and the date when the financial statements are authorized for issue. Such financial reporting frameworks ordinarily identify two types of events:
 - (a) Those that provide evidence of conditions that existed at the date of the financial statements; and
 - (b) Those that provide evidence of conditions that arose after the date of the financial statements.

ISA 700 (Revised), "The Independent Auditor's Report on General Purpose Financial Statements" explains that the date of the auditor's report informs the reader that the auditor has considered the effect of events and transactions of which the auditor becomes aware and that occurred up to that date.

Effective Date

3. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2008¹.

Objectives

4. The objectives of the auditor are to:
 - (a) Obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that materially affect the financial statements are appropriately reflected in those financial statements, and
 - (b) Respond appropriately to facts which become known to the auditor after the date of the auditor's report that materially affect the financial statements.

Definitions

5. For purposes of the ISAs the following terms have the meanings attributed below:

¹ This effective date is provisional, but it will not be earlier than December 15, 2008.

- (a) Date of the financial statements - The date of the end of the latest period covered by the financial statements, which is normally the date of the most recent balance sheet in the financial statements subject to audit.
- (b) Date of approval of the financial statements - The date on which those with the recognized authority assert that they have prepared the entity's complete set of financial statements, including the related notes, and that they have taken responsibility for them. (Ref: Para. A2)
- (c) Date of the auditor's report - The date selected by the auditor to date the report on the financial statements. The auditor's report is not dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on the financial statements.² Sufficient appropriate audit evidence includes evidence that the entity's complete set of financial statements has been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.
- (d) Date the financial statements are issued - The date that the auditor's report and audited financial statements are made available to third parties, which may be, in many circumstances, the date that they are filed with a regulatory authority.
- (e) Subsequent events - Events occurring between the date of the financial statements and the date of the auditor's report, and facts which become known to the auditor after the date of the auditor's report.

Requirements

Events Occurring Between the Date of the Financial Statements and the Date of the Auditor's Report (Ref: Para. A3 – A8)

- 6. The auditor shall perform 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 conduct a continuing review of all matters to which previously applied procedures have provided satisfactory conclusions.
- 7. The 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 shall be completed as near as practicable to the date of the auditor's report and shall include the following:
 - (a) Reviewing procedures management has established to ensure that subsequent events are identified.

² In rare circumstances, law or regulation also identifies the point in the financial statement reporting process at which the audit is expected to be complete.

- (b) Reading minutes of the meetings of the entity's owners, management and those charged with governance held after the date of the financial statements and inquiring about matters discussed at meetings for which minutes are not yet available.
 - (c) Reading the entity's latest available interim external financial statements and interim internal management financial statements.
 - (d) Inquiring of management as to whether any subsequent events have occurred which might affect the financial statements.
8. When the auditor identifies events that materially affect the financial statements, the auditor shall determine whether such events are properly accounted for and adequately disclosed in the financial statements.

Facts Which Become Known to the Auditor 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. However, 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 shall:
- (a) Discuss the matter with management,
 - (b) Determine whether the financial statements need amendment, and, if so,
 - (c) Determine whether management will amend the financial statements. (Ref: Para. A9)
10. When management amends the financial statements, the auditor shall carry out the procedures necessary in the circumstances and shall issue a new auditor's report on the amended financial statements. The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements and, accordingly, the procedures referred to in paragraph 6 shall be extended to the date of the new auditor's report.
11. When management does not amend the financial statements in circumstances where the auditor believes they need to be amended, and:
- If the auditor's report has not yet been issued, the auditor shall issue an auditor's report expressing a qualified opinion or an adverse opinion, as described in ISA 705, "Modifications to the Opinion in the Independent Auditor's Report;" or alternatively
 - If the auditor's report has already been issued, the auditor shall notify management or those charged with governance, as appropriate, not to issue the financial statements and the auditor's report thereon to third parties. If the financial statements are nevertheless subsequently released, the auditor shall take action to prevent reliance on the auditor's report. (Ref: Para. A10)

Facts Which Become Known to the Auditor After the Financial Statements have been Issued

12. After the financial statements have been issued, the auditor has no obligation to make any inquiry regarding such financial statements. However, if 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 shall:
- (a) Discuss the matter with management,
 - (b) Determine whether the financial statements need amendment, and, if so,
 - (c) Determine whether management will amend the financial statements.
13. If management amends the financial statements, the auditor shall:
- (a) Carry out the audit procedures necessary in the circumstances,
 - (b) 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
 - (c) Issue a new auditor's report on the amended financial statements.
14. The auditor shall include in the new auditor's report an emphasis of matter paragraph referring to a note to the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and to the earlier report issued by the auditor.
15. The auditor shall date the new auditor's report no earlier than the date of approval of the amended financial statements and, accordingly, the auditor shall extend the procedures referred to in paragraph 6 to the date of the new auditor's report. Local regulations of some countries permit the auditor to restrict the audit procedures regarding the amended financial statements to the effects of the subsequent event that necessitated the amendment. In such cases, the auditor shall include in the new auditor's report a statement to that effect.
16. If 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 amend the financial statements in circumstances where the auditor believes they need amendment, the auditor shall notify management and those charged with governance that action will be taken by the auditor to prevent future reliance on the auditor's report. If, despite such notification, management or those charged with governance do not take these necessary steps the auditor shall take action to prevent future reliance on the auditor's report. (Ref: Para. A11)
17. It may not be necessary for management to amend the financial statements and accordingly the auditor need not issue a new auditor's report when issuance of the financial statements for the following period is imminent, provided appropriate disclosures are made in such statements.

Application and Other Explanatory Material

Introduction (Ref: Para. 1)

- A1. When the audited financial statements are included in other documents subsequent to the issuance of the financial statements, the auditor may have additional responsibilities relating to subsequent events that the auditor may need to consider, such as legal or regulatory requirements involving the offering of securities to the public in other 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 may include those referred to in paragraphs 6 and 7 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.

Definitions (Ref: Para. 5)

- A2. Paragraph 5(b) of this ISA defines the date of approval of the financial statements. In some jurisdictions, the law or regulation identifies the individuals or bodies (for example, the management or those charged with governance) that are responsible for concluding that a complete set of financial statements has been prepared, and specifies the necessary approval process. In other jurisdictions, the approval process is not prescribed in law or regulation and the entity follows its own procedures in preparing and finalizing its financial statements in view of its management and governance structures. In some jurisdictions, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. In these jurisdictions, final approval by shareholders is not necessary for the auditor to conclude that sufficient appropriate audit evidence has been obtained. The date of approval of the financial statements for purposes of the ISAs is the earlier date on which those with the recognized authority determine that a complete set of financial statements has been prepared.

Events Occurring Between the Date of the Financial Statements and the Date of the Auditor's Report (Ref: Para. 6 – 8)

- A3. The procedures required by paragraph 6 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.
- A4. In addition to the procedures required by paragraph 7, the auditor may consider it necessary and appropriate to:
- Read the entity's latest available budgets, cash flow forecasts and other related management reports.
 - Inquire, or extend previous oral or written inquiries, of the entity's lawyers concerning litigation and claims.

- A5. In inquiring of management as to whether any subsequent events have occurred that might affect the financial statements, the auditor may inquire as to the current status of items that were accounted for on the basis of preliminary or inconclusive data and may make specific inquiries about the following matters:
- Whether new commitments, borrowings or guarantees have been entered into.
 - Whether sales of assets have occurred or are planned.
 - Whether there have been increases in capital or issuance of debt instruments, such as 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.
 - Whether there have been any developments regarding 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.
- A6. The auditor may, depending on the circumstances, consider whether written representations covering particular subsequent events may be necessary to obtain sufficient appropriate audit evidence.

Considerations Specific to Smaller Entities

- A7. It may not be common for small entities to be required to report shortly after the date of the financial statements. It is often the case that more time elapses between the date of the financial statements and the approval of, or signature on, the financial statements by the owner-manager in the case of small entities, than in the case of large entities. The period to be covered by the auditor's subsequent events procedures may therefore often be longer in the audit of a small entity, which allows more opportunity for the occurrence of subsequent events that can affect the financial statements. Nevertheless, this ISA requires the auditor to perform procedures to cover the entire period from the date of the financial statements up to the date of the auditor's report.
- A8. Paragraph 7 of this ISA stipulates certain procedures in this context, which, when relevant, the auditor is required to perform pursuant to paragraph 6. The subsequent events procedures that the auditor of a small entity performs may, however, depend on the information that is available and, in particular, the extent to which the accounting records have been prepared since the date of the financial statements. When the accounting records are not up-to-date and minutes of meetings of management or those charged with governance have not been prepared, relevant procedures may take the form of inquiry of the owner-manager, recording the owner-manager's responses and inspection of available books and records, including

bank statements. Paragraph A5 of this ISA gives examples of some of the additional matters that it may be appropriate for the auditor to consider in the course of these inquiries.

Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued (Ref: Para. 9 - 11)

- A9. 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.
- A10. When the auditor is required to take action to prevent reliance on the auditor's report pursuant to paragraph 11, because management has not amended the financial statements when the auditor has determined that amendment is necessary due to facts which became known to the auditor after the date of the auditor's report but before the date the financial statements are issued, such action will depend on the auditor's legal rights and obligations and the recommendations of the auditor's legal counsel.

Facts Which Become Known to the Auditor After the Financial Statements have been Issued (Ref: Para. 16)

- A11. When the auditor is required to take action to prevent reliance on the auditor's report pursuant to paragraph 16, because management has not amended the financial statements when the auditor has determined that amendment is necessary due to facts which became known to the auditor after the date the financial statements are issued, such action will depend on the auditor's legal rights and obligations and the recommendations of the auditor's legal counsel.