

Agenda Item 10-D

Proposed ISA 560 (Redrafted) – Mapping Document

This mapping document demonstrates how the material in the extant ISA 560 has been reflected in the proposed redrafted ISA. Highlight material identifies material that is proposed to be eliminated or repositioned to another ISA (as needed) as a result of redrafting. An explanation of the proposed deletion and other comments are provided, where appropriate.

Extant ISA	New Para. Ref.	Comment on proposed deletion of highlighted material, significant edits, and other notes.
<p>Conforming Amendments to ISA 560 as a Result of ISA 700 (Revised) — Effective for Auditor’s Reports Dated On or After December 31, 2006</p> <p>ISA 700 (Revised), “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” issued in December 2004 gave rise to conforming amendments to ISA 560. ISA 700 (Revised) and the conforming amendments to ISA 560 are effective for auditor’s reports dated on or after December 31, 2006. The conforming amendments are highlighted below.</p>		Not applicable: deleted.
Introduction		
<p>1.1 The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the auditor’s responsibility regarding subsequent events.</p>	1	Reworded as “scope of this ISA” in line with current clarity drafts and extended to clarify the scope of the standard.
<p>1.2 In this ISA, the term “subsequent events” is used to refer to both events occurring between period-end <u>the date of the financial statements</u> and the date of the auditor’s report, and facts discovered after the date of the auditor’s report.</p>	5(e)	Included within the definitions.

Note: Highlighting indicates material that has been deleted, unless otherwise noted.

<p>2. The auditor should consider the effect of subsequent events on the financial statements and on the auditor’s report.</p>	<p>4</p>	<p>Basis for objective, but completely reworded.</p>
<p>3. International Accounting Standard (IAS) 10, “Contingencies and Events Occurring After the Balance Sheet Date” <u>“Events After the Balance Sheet Date,”</u> deals with the treatment in financial statements of events, both favorable and unfavorable, occurring after period-end <u>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</u> and identifies two types of events:</p> <p>(a) Those that provide further evidence of conditions that existed at period-end <u>the date of the financial statements</u>; and</p> <p>(b) Those that are indicative of conditions that arose subsequent to period-end <u>after the date of the financial statements</u>.</p>	<p>2</p>	<p>Included as background information, and a sentence has been added to precede this quote, in order to refer to other financial reporting frameworks.</p>
<p>Definitions</p>		
<p>4. The following terms have the meanings attributed below:</p> <p>(a) <u>“Date of the financial statements” is 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.</u></p> <p>(b) <u>“Date of approval of the financial statements” is 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. In some jurisdictions, the law or regulation identifies the individuals or bodies (for example, the directors) 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</u></p>	<p>5.1 5(a) 5(b) A2</p>	<p>Remains in the definitions section, although under definition the detail in 4(b)2 et seq. has been moved to application material.</p>

¹ 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.

<p><u>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.</u></p> <p>(c) <u>“Date of the auditor’s report” is 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.¹ 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.</u></p> <p>(d) <u>“Date the financial statements are issued” is 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.</u></p>	<p>5(c)</p> <p>5(d)</p>	
<p>Events Occurring Up to the Date of the Auditor’s Report</p>		
<p>5.1 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.</p>	<p>6.1</p>	<p>First sentence retained as a requirement.</p>
<p>5.2 These procedures are in addition to routine procedures which may be applied to specific transactions occurring after period end <u>the date of the financial statements</u> to obtain audit evidence as to account balances as at period end <u>the date of the financial statements</u>, for example, the testing of inventory cutoff and payments to creditors.</p>	<p>A3</p>	<p>This is guidance and includes examples; therefore it has been placed in application material.</p>
<p>5.3 The auditor is not, however, expected to conduct a continuing review of all matters to which previously applied procedures have provided satisfactory conclusions.</p>	<p>6.2</p>	<p>This sentence limits the requirement and clarifies the auditor’s duties in this</p>

		context.
6.1	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:	7.1
6.1b1	Reviewing procedures management has established to ensure that subsequent events are identified.	7(a)
6.1b2	Reading minutes of the meetings of shareholders, the board of directors and audit and executive committees held after period end <u>the date of the financial statements</u> and inquiring about matters discussed at meetings for which minutes are not yet available.	7(b)
6.1b3/c1	Reading the entity’s latest available interim financial statements	7(c)

Requirement as to timing is necessary in virtually all circumstances. The rest of the sentence repeats the requirement in extant 5.1 and has therefore been shortened, as now that it follows on from extant 5.3 it is clear that not all audit procedures have to be performed as near as practicable to the date of the auditor’s report.

These procedures are required to the extent that the relevant information exists. The term “Shareholders, the board of directors and audit and executive committees” has been replaced with “the entity’s owners, management and those charged with governance” to conform with ISA 260.

These procedures are required to the extent that

			the relevant information exists.
6.1b3/c2	... as considered necessary and appropriate, budgets, cash flow forecasts and other related management reports.	A4b1	
6.1b4	Inquiring, or extending previous oral or written inquiries, of the entity’s lawyers concerning litigation and claims.	A4b2	This is application material, because the auditor should apply a risk based approach in determining whether these procedures are necessary.
6.1b5.1	Inquiring of management as to whether any subsequent events have occurred which might affect the financial statements.	7(d)	This procedure is always required.
6.1b5.2	Examples of inquiries of management on specific matters are: <ul style="list-style-type: none"> ▪ 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. ▪ 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. 	A5	These are examples and therefore will not always be applicable. Consequently, they are application material.

<p>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 period-end <u>the date of the financial statements</u> and the need to inform the other auditor of the planned date of the auditor’s report.</p>	-	<p>This topic is dealt with in more detail by the requirements of ISA 600. Accordingly, this text has been deleted.</p>
<p>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.</p>	8	<p>The word consider has been changed to determine, as the auditor needs to do this in order to form an opinion, i.e., it is either “yes” or “no”.</p>
<p>Facts Discovered After the Date of the Auditor’s Report but Before the Date the Financial Statements are Issued</p>		
<p>9.1. 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.</p>	9.1	<p>This limits the extent of the auditor's responsibilities for the period following issuance of the auditor’s report and therefore represents essential guidance (negative requirement).</p>
<p>9.2. 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.</p>	A9	<p>This is background information and has been placed in the application material, slightly reworded, so as to not create an obligation on the part of management within the</p>

		standard.
10.	When, after the date of the auditor’s report but before <u>the date</u> 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.	9.2 Sentence divided into points for ease of presentation.
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 the amended financial statements are signed or approved <u>of approval of the amended financial statements</u> and, accordingly, the procedures referred to in paragraphs 4 and 5 would be extended to the date of the new auditor’s report.	10 Conditional requirement. All three actions are necessary in these circumstances. On the basis of feedback received from certain national translators the words “provide management with a new report“ have been changed to “issue a new auditor's report”.
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 released to the entity, the auditor should express a qualified opinion or an adverse opinion, <u>as described in ISA 701, “Modifications to the Independent Auditor’s Report.”</u>	11.1 Now amended in line with conforming amendments ISA 705 706. Also the words “prepare a new report expressing” have replaced “express”, as this is more logical given the subheading “ Facts Discovered After the Date of the Auditor’s Report but Before the Date the Financial Statements are Issued ”.
13.1	When the auditor’s report has been released to the entity, the auditor would notify those persons	11.2

<p>ultimately responsible for the overall direction of the entity not to issue the financial statements and the auditor’s report thereon to third parties.</p> <p>13.2 If the financial statements are subsequently released, the auditor needs to take action to prevent reliance on the auditor’s report.</p> <p>13.3 The action taken will depend on the auditor’s legal rights and obligations and the recommendations of the auditor’s lawyer.</p>	<p>11.3</p> <p>A10</p>	<p>Conditional requirements: Included with above paragraph as these relate to the same circumstances.</p> <p>Application material. An introductory sentence has been added to make the context clear within this paragraph.</p>
<p>Facts Discovered After the Financial Statements have been Issued</p>		
<p>14. After the financial statements have been issued, the auditor has no obligation to make any inquiry regarding such financial statements.</p>	<p>12.1</p>	<p>Essential guidance (negative requirement) as this limits the auditor’s responsibilities, thus setting the context for the following requirement.</p>
<p>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.</p>	<p>12.2</p>	<p>Sentence divided into points for ease of presentation. The “appropriate action” referred to at the end of the sentence is set forth in the following sequential requirements and is thus redundant such that this text has been deleted.</p>

<p>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.</p>	<p>13</p>	<p>Sentence divided into points for ease of presentation. The word “would” has been amended to “shall”, as these are conditional requirements: All three steps are necessary in the circumstances.</p>
<p>17.1 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.</p> <p>17.2 The new auditor’s report would be dated not earlier than the date the revised financial statements are approved <u>of approval of the revised financial statements</u> and, accordingly, the procedures referred to in paragraphs 4 and 5 would ordinarily be extended to the date of the new auditor’s report.</p> <p>17.3 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.</p> <p>17.4 In such cases, the new auditor’s report would contain a statement to that effect.</p>	<p>14</p> <p>15.1</p> <p>15.2</p> <p>15.3</p>	<p>The word “would” has been amended to “shall”, as these are conditional requirements.</p> <p>The requirements have been separated from that in extant 17.1, since 17.2 to 17.4 address the same issue. This improves presentation.</p>
<p>18.1 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</p>	<p>16</p>	<p>The term “notify those persons ultimately responsible for the overall direction of the entity” has been replaced</p>

<p>entity that action will be taken by the auditor to prevent future reliance on the auditor’s report.</p> <p>18.2 The action taken will depend on the auditor’s legal rights and obligations and the recommendations of the auditor’s lawyers.</p>	<p>A11</p>	<p>with “management and those charged with governance”. The word “would” has been amended to “shall”, as these are conditional requirements necessary in these circumstances.</p> <p>A further conditional requirement has been added in paragraph 16.2 for the auditor to actually take such action.</p> <p>Extant paragraph 18.2 is guidance for the auditor relating to the required action and has therefore been included in application material.</p>
<p>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.</p>	<p>17</p>	<p>This limits both management’s and the auditor’s responsibilities under certain circumstances. The text has been expanded to make these respective responsibilities clearer.</p>
<p>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</p>	<p>A1</p>	<p>This information has been treated as an example rather than a requirement, so it has</p>

<p>the final offering document. These procedures would ordinarily include carrying out the procedures referred to in paragraphs 4 <u>5</u> and <u>5</u> <u>6</u> 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</p>		<p>been placed within application material, but referenced to paragraph 1 “Scope of this ISA”. Accordingly, the wording has been amended to the effect that the auditor may need to consider other requirements.</p>
<p>Effective Date²</p>		
<p>21. <u>This ISA is effective for auditor’s reports dated on or after December 31, 2006.</u></p>	<p>3</p>	<p>This wording has been changed in line with other redrafted ISAs, including the addition of the footnote.</p>

² The original ISA did not have an effective date.

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