

ADDENDUM TO AGENDA ITEM 10 – PROPOSED ISA 560 (REDRAFTED)**Matters for IAASB Consideration - Public Sector Considerations**

There is presently no public sector perspective to extant ISA 560. However, the following public sector considerations have been identified by IAASB public sector members and technical advisors that may warrant inclusion into clarified ISA 560. The public sector proposals are shown together with the recommendation of the ISA 560 Redrafting Task Force.

1) Required procedures – consideration of relevant proceedings of the legislature***Public Sector Proposal***

In addition to the procedures described in paragraph 7, it is important for the public sector auditor to consider any relevant proceedings of the legislature or other related entities that take place after year end which may give rise to matters/outcomes that would impact the audited entity.

It is therefore proposed to add par A3X:

Considerations specific to public sector entities

In addition to the procedures described in paragraph 9, the public sector auditor considers relevant proceedings of the legislature or other related entities taking place at or after year end, and any matters arising from such proceedings that may have an impact on the audited entity.

Recommendation of the ISA 560 Redrafting Task Force

The Task Force agrees that the matter identified is important for financial statement audits of public sector entities. However, the Task Force believes that if proceedings of a legislature are relevant, then this is not a consideration, but an extension of the requirement in 7 (b) to public sector entities. Furthermore, it is unclear what “related entities” are and whether these cannot be subsumed under legislative bodies, those charged with governance, owners, or management. The Task Force therefore suggests amending the sentence in paragraph 7 (b) to the following (proposed changes to 7 (b) underlined):

“Reading minutes of the meetings of the entity’s owners, management or those charged with governance, or for public sector entities, relevant proceedings of the legislature, held after the date of the financial statements, and inquiring about matters addressed ~~discussed~~ at meetings or in proceedings for which minutes or official records are not yet available.”

2) Definitions - Date the financial statements are issued***Public Sector Proposal***

In regard to financial statements, the term "issued" is not necessarily widely used in the public sector. This date may vary within the public sector, but would normally be the date that the audit report and audited financial statements are presented to the legislature.

It is therefore proposed to amend definitions paragraph 5(d) as follows (amendment underlined):

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. In the case of the public sector, this may be the date the auditor's report and audited financial statements are presented to the legislature.

This proposed amendment may also affect paragraph A2.

Recommendation of the ISA 560 Redrafting Task Force

The Task Force agrees with the public sector proposal to amend the definition in paragraph 5 (d) as noted below. No change is proposed to paragraph A2, since paragraph A2 relates to the definition in paragraph 5 (b) rather than that in 5 (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. In the case of the public sector, this may be the date the audited financial statements and the auditor's report thereon are presented to the legislature.

3) Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued

Public Sector Proposal

In cases described in par 11 and A10 where management does not amend the financial statements in circumstances where the auditor believes they need to be amended, and the auditor's report has already been issued, and the financial statements are subsequently issued the public sector auditor also has the option of additional reporting to the legislature or other relevant body in the reporting hierarchy.

It is therefore proposed to add par A10X as follows:

Considerations specific to public sector entities

In the public sector, actions taken as described in paragraph A10 above may also include reporting separately to the legislature, or other relevant body in the reporting hierarchy, on the implications of the subsequent event for the financial statements and the auditor's report.

Recommendation of the ISA 560 Redrafting Task Force

To the extent that the public sector consideration represents an additional action, rather than alternative to those described in 11.1b2 and A10 (this is borne out by the words "may also include"), the Task Force accepts the insertion of this paragraph in between paragraphs A10 and A11.

4) Facts Which Become Known to the Auditor After the Financial Statements have been Issued / Issuance of a new audit report

Public Sector Proposal

As described in paragraphs 12 and 13, in cases where 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, and management amends the financial statements, the auditor shall issue a new report.

Issuance of a new report is not common practice in the public sector. However, if matters arise that need to be drawn to the attention of stakeholders, the public sector auditor would report such situations to the legislature.

It is therefore proposed to add par A11X (under the heading "Facts Which Become Known to the Auditor After the Financial Statements have been Issued", before par A12 and cross referenced to par 16(c) as follows:

Considerations specific to public sector entities

In the public sector, re-issuance of the auditor's report is not common practice. The public sector auditor may however report separately to the legislature, or other relevant body, in such cases.

Recommendation of the ISA 560 Redrafting Task Force

The public sector proposal would be inconsistent with the requirement in paragraph 13 (c) to issue a new auditor's report (albeit with the possibility to restrict procedures to the amendments as described in paragraph 15.2 as long as this is disclosed in the new auditor's report pursuant to paragraph 15.3). Consequently, this issue cannot be resolved by amending or adding to the application material.

The question that needs to be addressed in relation to this issue is whether additional separate reporting mitigates the lack of a new auditor's report on the amended financial statements.

The old auditor's report expresses an opinion on financial statements prior to their amendment. If no new opinion on the amended financial statements is expressed, users will be left with the impression that the opinion in the old auditor's report on the unamended financial statements is still valid. Consequently, a new opinion needs to be expressed on the amended financial statements (i.e., the new opinion must encompass the amendment of these financial statements). For this reason, reporting separately to the legislature or other relevant body would only suffice to the extent that this separate reporting encompasses a new opinion on the amended financial statements. If so, such an audit opinion ought to be a part of a complete auditor's report and not be expressed without being embedded in complete auditor's report.

For these reasons, the Task Force tentatively recommends that the requirements in ISA 560 for the issuance of a new auditor's report not be changed. Furthermore, based on its understanding of the issues the Task Force is of the opinion that the public sector proposal for a change to the application material cannot be implemented, since this would cause the application material to be inconsistent with the underlying requirement. The public sector proposal notes that the issuance of a new auditor's report is "not common practice". In this case, the Task Force believes that practice in the public sector ought to be changed to conform with this ISA to the extent legislation or regulation does not hinder such change.

The Task Force nevertheless recognizes that it may not be interpreting the nature of the problem and the legal requirements to which public sector auditors are subject appropriately. The Task Force therefore also recommends that this issue be discussed in further detail in the IAASB.

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