

PROPOSED INTERNATIONAL STANDARD ON AUDITING 560**(REDRAFTED)****SUBSEQUENT EVENTS**

(Effective for audits of financial statements for periods beginning on or after December 15, 2009)

[CLEAN DRAFT]**CONTENTS**

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International Standard on Auditing (ISA) 560 (Redrafted), "Subsequent Events" should be read in the context of the "Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services," which sets out the authority of ISAs.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities 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.¹ 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, "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, 2009.

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 require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements, and
 - (b) Respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.

¹ 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.

Definitions

5. For purposes of the ISAs the following terms have the meanings attributed below:
- (a) Date of the financial statements – The date of the end of the latest period covered by the financial statements. (Ref: Para. A2)
 - (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 financial statements, including the related notes, and that they have taken responsibility for them. (Ref: Para. A3)
 - (c) Date of the auditor's report – The date the auditor dates the report on the financial statements in accordance with ISA 700. (Ref: Para. A4)
 - (d) Date the financial statements are issued – The date that the auditor's report and audited financial statements are made available to third parties. (Ref: Para. A5 - A6)
 - (e) Subsequent events – Events occurring between the date of the financial statements and the date of the auditor's report, and facts that 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. A7-A12)

6. The auditor shall perform audit 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 perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions unless they are affected by subsequent events.
7. The auditor shall complete the procedures required by paragraph 6 as near as practicable to the date of the auditor's report. The auditor shall take into account the auditor's risk assessment in determining the nature and extent of such audit procedures, which shall include the following: (Ref: Para. A10 and A11)
- (a) Obtaining an understanding of the procedures management has established to ensure that subsequent events are identified.
 - (b) Inquiring of management, and where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements. (Ref: Para. A8)
 - (c) Reading minutes, if any, of the meetings, of the entity's owners, management and those charged with governance, that have been held after the date of the financial

statements and inquiring about matters discussed at those meetings for which minutes are not yet available. (Ref: Para. A12)

- (d) Reading the entity's latest subsequent interim external financial statements and subsequent interim internal management financial statements, if any.
- 8. When, as a result of the procedures performed as required by paragraphs 6 and 7, the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements.
- 9. The auditor shall request management and, where appropriate, those charged with governance, to provide a written representation that all events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed

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. A13-A18)

- 10. The auditor has no obligation to perform any audit procedures 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 that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend 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) Inquire how management intends to address the matter in the financial statements.
- 11. In some jurisdictions, management may not be required by law, regulation or the financial reporting framework to issue amended financial statements, and accordingly, the auditor need not issue a new auditor's report. However, when management does amend the financial statements, the auditor shall:
 - (a) Carry out the audit procedures necessary in the circumstances on the amendment.
 - (b) Unless the circumstances in paragraph 12 apply,
 - (i) Extend the audit procedures referred to in paragraphs 6 and 7 to the date of the new auditor's report, and
 - (ii) 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.
- 12. When law, regulation or the financial reporting framework allows management to restrict the amendment of the financial statements to the effects of the subsequent event or events causing that amendment and those responsible for approving the financial statements are permitted to restrict their approval to that amendment, the auditor is

permitted to restrict the audit procedures on subsequent events required in paragraph 11 (b)(i) to that amendment. In such cases, the auditor shall amend the auditor's report, to include an additional statement that the auditor's procedures are restricted solely to the amendment of the financial statements as described in the relevant note to the financial statements and provide an additional auditor's report date on that amendment.

13. When management does not amend the financial statements in circumstances where the auditor believes they need to be amended, then:
- If the auditor's report has not yet been issued to the entity, the auditor shall modify the opinion as required by ISA 705, "Modifications to the Opinion in the Independent Auditor's Report" and then issue the auditor's report; or (Ref. A16)
 - If the auditor's report has already been issued to the entity, the auditor shall notify management and, unless all of those charged with governance are involved in managing the entity, those charged with governance, not to issue the financial statements and the auditor's report thereon to third parties. If the financial statements and the auditor's report thereon are nevertheless subsequently issued, the auditor shall take action, in light of the auditor's legal rights and obligations, to seek to prevent reliance on the auditor's report. (Ref. A17)

Facts Which Become Known to the Auditor After the Financial Statements have been Issued (Ref. A19-A20)

14. After the financial statements have been issued, the auditor has no obligation to perform any audit procedures regarding such financial statements. However, when, after the financial statements have been issued, a fact becomes known to that auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend 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) Inquire how management intends to address the matter in the financial statements.
15. If management amends the financial statements, the auditor shall:
- (a) Carry out the audit procedures necessary in the circumstances on the amendment,
 - (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) Unless the circumstances in paragraph 12 apply,
 - (i) Extend the audit procedures referred to in paragraphs 6 and 7 to the date of the new auditor's report and date the new auditor's report no earlier than the date of approval of the amended financial statements and,
 - (ii) Issue a new auditor's report on the amended financial statements.

- (d) When the circumstances in paragraph 12 apply, amend the auditor's report as required by paragraph 12.
16. The auditor shall include in the new or amended 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.
17. 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, unless all of those charged with governance are involved in managing the entity, those charged with governance, that the auditor will take action to seek 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, in light of the auditor's legal rights and obligations, to seek to prevent future reliance on the auditor's report. (Ref. A19)

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 jurisdictions in which the securities are being offered. For example, the auditor may be required to perform 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(a) of this ISA defines the date of the financial statements, which is normally the date of the most recent balance sheet in the financial statements subject to audit.
- A3. 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, management or those charged with governance) that are responsible for concluding that the financial statements have 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 the financial statements have been prepared.

- A4. Paragraph 5(c) defines the date of the auditor's report. As required in paragraph 38 of ISA 700 (Redrafted), the auditor's report cannot be 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 financial statements have been prepared and that those with the recognized authority have asserted that they have taken responsibility for them. Consequently, the date of the auditor's report cannot be earlier than the date of approval of the financial statements as defined in paragraph 5(b). A time period may elapse due to administrative issues between the date of the auditor's report as defined in paragraph 5(c) and the date the auditor's report is physically issued to the entity.
- A5. Paragraph 5(d) of this ISA defines the date the financial statements are issued. In many circumstances, this date may be the date that they are filed with a regulatory authority. Since audited financial statements cannot be issued without an auditor's report, the date that the audited financial statements are issued must not only be at or later than the date of the auditor's report, but must also be at or later than the date of issuance of the auditor's report to the entity.

Considerations Specific to Public Sector Entities

- A6. In the case of the public sector, the date the financial statements are issued may be the date the audited financial statements and the auditor's report thereon are presented to the legislature.

Events Occurring Between the Date of the Financial Statements and the Date of the Auditor's Report (Ref: Para. 6-9)

- A7. The audit procedures required by paragraphs 6 and 7 are in addition to 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 cut-off and payments to creditors.
- A8. In inquiring of management, and where appropriate, those charged with governance, 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:

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.

- Whether new commitments, borrowings or guarantees have been entered into.
- Whether sales or acquisitions 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.
- Whether any events have occurred or are likely to occur which are relevant to the measurement of estimates or provisions made in the financial statements.
- Whether any events have occurred or are likely to occur which are relevant to the recoverability of assets.

A9. In addition to the audit 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 for periods after the date of the financial statements,
- Inquire, or extend previous oral or written inquiries, of the entity's legal counsel concerning litigation and claims, or
- Consider whether specific written representations covering particular subsequent events may be necessary to corroborate other audit evidence and thereby obtain sufficient appropriate audit evidence.

Considerations Specific to Smaller Entities

A10. It is often the case that more time elapses between the date of the financial statements and the approval of the financial statements in the case of small entities, such as owner-managed entities, or other non-listed entities than in the case of large entities. This may allow more opportunity for the occurrence of subsequent events that can affect the financial statements. Nevertheless, pursuant to paragraphs 6 and 7, this ISA requires the auditor to perform audit procedures to cover the entire period from the date of the financial statements up to the date of the auditor's report.

A11. Paragraph 7 of this ISA stipulates certain audit procedures in this context that 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 accordingly no interim financial statements (whether for internal or external purposes) have been prepared, or minutes of meetings of management or those charged with governance have not been prepared, relevant audit procedures may take the form of inquiry of management or those charged with governance, documentation of their responses, and inspection of available books and records, including bank statements. Paragraph A8 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.

Considerations Specific to Public Sector Entities (Ref. Para. 7(c))

- A12. In the public sector, the auditor may read the official records of relevant proceedings of the legislature and inquire about matters addressed in proceedings for which official records are not yet available.

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. 10-13)

- A13. As agreed in the terms of engagement, management has a responsibility to inform the auditor of facts of which it becomes aware during the period from the date of the auditor's report to the date the financial statements are issued (see ISA 210, "Terms of Engagement").
- A14. In some jurisdictions, management may not be required by law, regulation or the financial reporting framework to issue amended financial statements. This is often the case when issuance of the financial statements for the following period is imminent, provided appropriate disclosures are made in such statements.
- A15. In the circumstances described in paragraph 12, the date of the auditor's report on the financial statements prior to their subsequent amendment by management remains unchanged because this date informs the reader as to when the audit work on those financial statements was completed. However, an additional statement is included in the auditor's report to inform users that the auditor's procedures subsequent to that date were restricted to the subsequent amendment of the financial statements. This statement provides an additional auditor's report date restricted to that amendment. The following is an illustration of such an additional statement:
- "(Date of auditor's report), except as to Note Y, which is of (Date of completion of audit procedures restricted to amendment described in Note Y)."
- A16. Situations may occur in which an auditor's report has been signed by the auditor with an appropriate auditor's report date, but not yet issued to the entity (see explanation in paragraph A4). When a fact then becomes known to that auditor after having signed the auditor's report but before having issued it to the entity, where that fact, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the procedures required by paragraphs 10 to 12 and the first bullet point of paragraph 13 apply.

- A17. When seeking to prevent reliance on the auditor's report that had been issued by the entity in disregard of the auditor's prior notification not to issue the financial statements and the auditor's report thereon to third parties, the auditor may consider it appropriate to seek legal advice when determining an appropriate course of action.

Considerations Specific to Public Sector Entities

- A18. In the public sector, the actions taken in accordance with paragraph 13 when management does not amend the financial statements 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.

Facts Which Become Known to the Auditor After the Financial Statements have been Issued (Ref. 14-17)

- A19. When seeking to prevent reliance on the auditor's report that has been issued by the entity in disregard of the auditor's prior notification to the contrary, the auditor may consider it appropriate to seek legal advice when determining an appropriate course of action.

Considerations Specific to Public Sector Entities

- A20. In some jurisdictions, entities in the public sector may be prevented from issuing amended financial statements by law or regulation. In such circumstances the appropriate course of action for the auditor may be to report to the appropriate statutory body.

PROPOSED CONFORMING AMENDMENTS

ISA 210, “Terms of Audit Engagements”

The following additional bullet is added to paragraph 8:

- The agreement of management to inform the auditor of facts, that may affect the financial statements, of which management may become aware during the period from the date of the auditor’s report to the date the financial statements are issued.

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