

**ASA 560**  
(October 2009)

# **Explanatory Statement**

## ***ASA 560 Subsequent Events***

Issued by the **Auditing and Assurance Standards Board**

For approval



**Australian Government**

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**Auditing and Assurance Standards Board**

## **Obtaining a Copy of this Explanatory Statement**

This Explanatory Statement is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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For approval

## **Reasons for Issuing Auditing Standard ASA 560 *Subsequent Events***

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 560 *Subsequent Events* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001* (the Act), the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards. The IAASB has undertaken a programme to redraft, and in some cases, revise, in “clarity” format, the entire suite of ISAs. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

The Auditing Standard conforms with ISA 560 *Subsequent Events*.

## **Operative Date**

ASA 560 *Subsequent Events* is operative for financial reporting periods commencing on or after 1 January 2010.

## **Purpose of Auditing Standard ASA 560 *Subsequent Events***

The purpose of the Auditing Standard is to establish requirements and to provide application and other explanatory material to auditors regarding their responsibilities relating to subsequent events in an audit of a financial report.

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### Main Features

The Auditing Standard:

- (a) requires the auditor to consider the effect of subsequent events on the financial report and on the auditor's report;
- (b) establishes the auditor's responsibilities regarding events occurring between the date of the financial report and the date of the auditor's report;
- (c) establishes the auditor's responsibilities regarding facts which became known to the auditor after the date of the auditor's report but before the financial report is issued; and
- (d) establishes the auditor's responsibilities regarding facts which became known to the auditor after the financial report is issued.

### Preamble and Overall Objectives

ASA 560 is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. ASA 560 is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

### Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

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In implementing the FRC's Strategic Direction, the AUASB has undertaken a process of revision and redrafting of the Australian Auditing Standards that has:

- updated the form, layout and content of the Australian Auditing Standards;
- addressed the legal enforceability of mandatory obligations;
- maintained clarity of the auditor's obligations;
- incorporated appropriate references to Australian laws and regulations;
- clearly identified, by use of the prefix "Aus", AUASB additions to paragraphs in the requirements or the application and other explanatory material; and
- included other amendments as necessary.

### **Consultation Process prior to issuing the Auditing Standard**

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 13/08 *Proposed Auditing Standard: Subsequent Events* (Re-issuance of ASA 560), was issued on 15 September 2008 with a 30 day comment period.

As an integral part of its consultation with the public, the AUASB sought comments on specific questions including:

- the completeness and accuracy of references in the Auditing Standard to relevant laws and regulations;
- the significant costs, if any, and benefits, of compliance with any additional requirements under the Auditing Standard; and
- whether or not there exist any matters of public interest affecting the issuance of the Auditing Standard.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

## Regulatory Impact Statement

A *Regulatory Impact Statement* (RIS) has been prepared in connection with the redrafting of Australian Auditing Standards in “clarity” format, including ASA 560 *Subsequent Events*.

The RIS has considered both the expected benefits and expected costs of the introduction of clarified auditing standards, including comments provided by stakeholders during the redrafting process. It concluded that expected benefits to users of audit services, users of audit reports, auditors and the Australian economy in general are, on balance, likely to outweigh expected costs.

## Main Differences from ASA 560 *Subsequent Events* (April 2006)

The main differences between the Auditing Standard and the Auditing Standard that it supersedes, ASA 560 *Subsequent Events* (April 2006), are:

1. Auditing Standard ASA 560 is written in the “clarity” format using the equivalent International Standard on Auditing (ISA 560 *Subsequent Events*) as the underlying Auditing Standard. Consequently, the format, layout, and paragraph numbering styles are different from the extant Auditing Standard.
2. The following requirements included in the Auditing Standard are in part, or full, additional to the extant Auditing Standard:
  - (a) The auditor shall request management and, where appropriate, those charged with governance, to provide a written representation in accordance with ASA 580 that all events occurring subsequent to the date of the financial report and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed. (Ref: Para. 9)
  - (b) The auditor has no obligation to perform any audit procedures regarding the financial report after the date of the auditor’s report. However, if, after the date of the auditor’s report but before the date the financial report is issued, a fact becomes known to the 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:

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- (i) Discuss the matter with management and, where appropriate, those charged with governance.
  - (ii) Determine whether the financial report needs amendment and, if so,
  - (iii) Enquire how management intends to address the matter in the financial report. (Ref: Para. 10)
- (c) Where law, regulation or the financial reporting framework does not prohibit management from restricting the amendment of the financial report to the effects of the subsequent event or events causing that amendment and those responsible for approving the financial report are not prohibited from restricting their approval to that amendment, the auditor is permitted to restrict the audit procedures on subsequent events required in paragraph 11(b)(i) of this Auditing Standard to that amendment. In such cases, the auditor shall either:
- (i) Amend the auditor's report to include an additional date restricted to that amendment that thereby indicates that the auditor's procedures on subsequent events are restricted solely to the amendment of the financial report described in the relevant note to the financial report; or
  - (ii) Provide a new or amended auditor's report that includes a statement in an Emphasis of Matter paragraph or Other Matter paragraph that conveys that the auditor's procedures on subsequent events are restricted solely to the amendment of the financial report as described in the relevant note to the financial report. (Ref: Para. 12)
- (d) In some jurisdictions, management may not be required by law, regulation or the financial reporting framework to issue an amended financial report and, accordingly, the auditor need not provide an amended or new auditor's report. However, if management does not amend the financial report in circumstances where the auditor believes it needs to be amended, then:
- (i) If the auditor's report has not yet been provided to the entity, the auditor shall modify the opinion as

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required by ASA 705 and then provide the auditor's report; or

- (ii) If the auditor's report has already been provided 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 report to third parties before the necessary amendments have been made. If the financial report is nevertheless subsequently issued without the necessary amendments, the auditor shall take appropriate action, to seek to prevent reliance on the auditor's report. (Ref: Para. 13)
  - (e) The auditor shall include in the new or amended auditor's report an Emphasis of Matter paragraph or Other Matter paragraph referring to a note in the financial report that more extensively discusses the reason for the amendment of the previously issued financial report and to the earlier report provided by the auditor. (Ref: Para. 16)
3. Certain guidance material in the extant Auditing Standard has been elevated to requirements.
  4. To improve clarity, certain requirements and guidance in the extant Auditing Standard have been re-written, however, the equivalent meanings have been retained.
  5. Application and other explanatory material, linked to the additional requirements listed at 2. above is also included in the Auditing Standard.