

(April 2006)

# **Explanatory Statement**

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

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



**Australian Government**

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**Auditing and Assurance Standards Board**

## **Explanatory Statement**

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

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

The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001*, as from 1 July 2004. Under section 336 of the *Corporations Act 2001*, 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*.

### **Process of making Auditing Standards**

Section 1455 of the *Corporations Act 2001* and *Corporations Regulation 10.5.01* gave interim legal endorsement from 1 July 2004 to the majority of Auditing Standards made by the former Auditing & Assurance Standards Board of the Australian Accounting Research Foundation. The AUASB has reviewed the Auditing Standards and has proceeded to make them as legally enforceable Auditing Standards under the *Corporations Act 2001*.

The Auditing Standards have been made also in accordance with the Financial Reporting Council's Strategic Direction to the AUASB dated 6 April 2005, pursuant to section 225 of the *ASIC Act*.

The Strategic Direction, *inter alia*, provides that the AUASB develops Auditing Standards that:

- have a clear public interest focus and are of the highest quality;

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- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as a base;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the Strategic Direction, the AUASB has undertaken a process of thorough review and revision that has:

- addressed the enforceability of mandatory requirements;
- clarified auditors' obligations under the Auditing Standards;
- provided for sector neutrality in the Auditing Standards; and
- included other amendments as necessary.

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

The purpose of Auditing Standard ASA 560 is to establish mandatory requirements and to provide explanatory guidance on the auditor's responsibility regarding subsequent events.

Auditing Standard ASA 560 is to be read in conjunction with the *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the Auditing Standards are to be understood, interpreted and applied.

### **Operative Date**

This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.

## **Main changes from Auditing Standard AUS 706 (October 1995) *Subsequent Events***

The main differences between ASA 560 and AUS 706 are that in ASA 560:

1. The word ‘shall’, in the **bold-type** paragraphs, is the terminology used to describe an auditor’s mandatory requirements, whereas an auditor’s degree of responsibility is described in AUS 706 by the word ‘should’.
2. The explanatory guidance paragraphs provide guidance and illustrative examples to assist the auditor in fulfilling the mandatory requirements, whereas in AUS 706 some obligations are implied within certain explanatory paragraphs. Accordingly, such paragraphs have been redrafted to clarify that the matter forms part of the explanatory guidance.
3. The following implied obligations, in AUS 706, have been elevated and re-stated as specific mandatory requirements:
  - (a) when the financial report is amended, the auditor shall carry out the audit procedures necessary in the circumstances and shall provide management and those charged with governance with a new report on the amended financial report (paragraph 15);
  - (b) when the auditor’s report has been released to the entity, the auditor shall notify those charged with governance not to issue the financial report and the auditor’s report thereon to third parties (paragraph 18);
  - (c) if the financial report is subsequently released, the auditor shall take action to prevent reliance on the auditor’s report (paragraph 19);
  - (d) when the financial report is revised, the auditor shall carry out the audit procedures necessary in the circumstances, shall review the steps taken by

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management and those charged with governance to ensure that anyone in receipt of the previously issued financial report together with the auditor's report thereon is informed of the situation, and shall issue a new report on the revised financial report (paragraph 23); and

- (e) when those charged with governance do not:
  - (i) take the necessary steps to ensure that anyone in receipt of the previously issued financial report together with the auditor's report thereon is informed of the situation; or
  - (ii) revise the financial report in circumstances where the auditor believes it needs to be revised;

the auditor shall take action with the objective of preventing future reliance on the auditor's report and shall notify those charged with governance of this action (paragraph 26).

4. The explanatory paragraphs on the definitions of "reporting date", "date of approval of the financial report", "date of the auditor's report" and "date the financial report is issued" as contained in ISA 560, are adopted and adjusted, where appropriate, to align to the wording in AASB 110 *Events after the Balance Sheet Date*.

### **Consultation prior to issuing this Auditing Standard**

The AUASB has consulted publicly as part of its due process in developing this Auditing Standard. Exposure Draft ED 22/05 *Proposed Auditing Standard: Subsequent Events (Re-issuance of AUS 206)* was issued on 28 October 2005 with a 45 day comment period. Submissions were received by the AUASB and it has

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considered these submissions as part of the development and finalisation of this Auditing Standard.