

ASA 560
(April 2006)

Auditing Standard ASA 560 *Subsequent Events*

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



Australian Government

Auditing and Assurance Standards Board

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ISSN 1833-4393

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PREFACE

Reasons for Issuing Auditing Standard 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* (the CLERP 9 Act) 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*.

Main Features

This 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 mandatory requirements and provides explanatory guidance on the auditor's responsibility regarding events occurring up to the date of the auditor's report;
- (c) establishes mandatory requirements and provides explanatory guidance on the auditor's responsibility regarding facts discovered after the date of the auditor's report but before the financial report is issued; and
- (d) establishes mandatory requirements and provides explanatory guidance on the auditor's responsibility regarding facts discovered after the financial report has been issued.

Operative Date

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

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

The main differences between this Auditing Standard and the Auditing Standard issued by the Auditing & Assurance Standards Board of the Australian Accounting Research Foundation, AUS 706 (October 1995) *Subsequent Events*, are that in this Auditing Standard:

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 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

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- (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); and

- 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 wordings in AASB 110 *Events after the Balance Sheet Date*.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes Auditing Standard ASA 560 *Subsequent Events* as set out in paragraphs 1 to 29, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard 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.

The mandatory requirements of this Auditing Standard are set out in **bold-type** paragraphs.

Dated 28 April 2006

M H Kelsall
Chairman - AUASB

AUDITING STANDARD ASA 560

Subsequent Events

Application

- 1 **This Auditing Standard applies to:**
 - (a) **an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with Part 2M.3 of the *Corporations Act 2001*; and**
 - (b) **an audit of a financial report for any other purpose.**
- 2 This Auditing Standard also applies, as appropriate, to an audit of other financial information.

Operative Date

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

Introduction

- 4 The purpose of this Auditing Standard is to establish mandatory requirements and to provide explanatory guidance on the auditor's responsibility regarding subsequent events. In this Auditing Standard, the term "subsequent events" is used to refer to both events occurring between the reporting date and the date of the auditor's report, and facts discovered after the date of the auditor's report.
- 5 **The auditor shall consider the effect of subsequent events on the financial report and on the auditor's report.**
- 6 Australian Accounting Standard AASB 110 *Events After the Balance Sheet Date* deals with the treatment in a financial report of events, both favourable and unfavourable, that occur between the reporting date and the date when the financial report is authorised for issue and identifies two types of events:
 - (a) those that provide evidence of conditions that existed at the reporting date (*adjusting events after the reporting date*); or

- (b) those that are indicative of conditions that arose after the reporting date (*non-adjusting events after the reporting date*).

Definitions

7 The following terms have the meanings attributed below:

- (a) “Reporting date” means the date of the end of the latest period covered by the financial report, which is normally the date of the most recent balance sheet in the financial report subject to audit.
- (b) “Date of approval of the financial report” means the date on which those with the recognised authority assert that they have prepared the entity’s complete financial report, including the related notes, and that they have taken responsibility for the financial report.

In some jurisdictions, law or regulation identifies the individuals or bodies (for example, the directors) that are responsible for concluding that a complete financial report 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 finalising its financial report in view of its management and governance structures. In some jurisdictions, final approval of the financial report by shareholders is required before the financial report is 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 report for purposes of the Auditing Standards is the earlier date on which those with the recognised authority determine that a complete financial report has been prepared.

- (c) “Date of the auditor’s report” means the date the auditor signs the auditor’s report on the financial report. 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 report.¹ Sufficient appropriate audit evidence includes

¹ In rare circumstances, law or regulation also identifies the point in the financial report reporting process at which the audit is expected to be complete.

evidence that the entity's complete financial report has been prepared and that those with the recognised authority have asserted that they have taken responsibility for them.

- (d) "Date the financial report is issued" means the date that the auditor's report and audited financial report are made available to third parties, which may be, in many circumstances, the date that they are filed with a regulatory authority.

Events Occurring Up to the Date of the Auditor's Report

8 The auditor shall perform audit 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 report have been identified.

9 These audit procedures are in addition to routine audit procedures which may be applied to specific transactions occurring after the reporting date to obtain audit evidence as to account balances as at the reporting date, for example, the testing of inventory cut-off and payments to creditors. The auditor is not, however, expected to conduct a continuing review of all matters to which previously applied audit procedures have provided satisfactory conclusions.

10 The audit procedures to identify events that may require adjustment of, or disclosure in, the financial report would ordinarily be performed as near as practicable to the date of the auditor's report and ordinarily include the following:

- reviewing procedures management has established to ensure that subsequent events are identified;
- reading minutes of the meetings of shareholders, those charged with governance, audit and executive committees held after the reporting date and enquiring about matters discussed at meetings for which minutes are not yet available;
- reading the entity's latest available interim financial report and, as ordinarily considered necessary and appropriate, budgets, cash flow forecasts and other related management reports;
- enquiring, or extending previous oral or written enquiries, of the entity's lawyers concerning litigation and claims; and

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- enquiring of management as to whether any subsequent events have occurred which might affect the financial report. Examples of enquiries of management on specific matters include:
 - ◆ 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; and
 - ◆ whether any events have occurred or are likely to occur which will bring into question the appropriateness of accounting policies used in the financial report, as would be the case, for example, if such events call into question the validity of the going concern assumption.
- 11 When a component, such as a division, branch or subsidiary, is audited by another auditor, the auditor would ordinarily consider the other auditor's procedures regarding events after the reporting date and the need to inform the other auditor of the planned date of the auditor's report.
- 12 **When the auditor becomes aware of events which materially affect the financial report, the auditor shall consider whether such events are properly accounted for and adequately disclosed in the financial report.**

Facts Discovered After the Date of the Auditor's Report but Before the Date the Financial Report is Issued

- 13 The auditor does not have any responsibility to perform procedures or make any enquiry regarding the financial report after the date of the auditor's report. During the period from the date of the auditor's report to the date the financial report is issued, the responsibility to inform the auditor of facts which may affect the financial report rests with management and those charged with governance.
- 14 **When, after the date of the auditor's report but before the date the financial report is issued, the auditor becomes aware of a fact which may materially affect the financial report, the auditor shall consider whether the financial report needs amendment, shall discuss the matter with management and those charged with governance, and shall take the action appropriate in the circumstances.**
- 15 **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.**
- 16 Under ASA 700 *The Auditor's Report on a General Purpose Financial Report*, the auditor needs to date the new auditor's report no earlier than the date of approval of the amended financial report. In such circumstances, under paragraphs 8 and 15 of this Auditing Standard, the auditor needs to extend the audit procedures referred to in paragraph 8 to the date of the new auditor's report.
- 17 **When the financial report is not amended, in circumstances where the auditor believes it needs to be amended, and the auditor's report has not been released to the entity, the auditor shall express a modified opinion, as described in ASA 701 *Modifications to the Auditor's Report*.**
- 18 **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.**
- 19 **If the financial report is subsequently released, the auditor shall take action to prevent reliance on the auditor's report.**
- 20 The action taken will ordinarily depend on the auditor's legal rights and obligations and the recommendations of the auditor's lawyer.

Facts Discovered After the Date the Financial Report has been Issued

- 21 After the financial report has been issued, the auditor has no obligation to make any enquiry regarding such a financial report.
- 22 **When, after the financial report has 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 shall consider whether the financial report needs revision, shall discuss the matter with management and those charged with governance, and shall take the action appropriate in the circumstances.**
- 23 **When the financial report is revised, the auditor shall carry out the audit procedures necessary in the circumstances, shall review the steps taken by 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.**
- 24 **The new auditor's report shall include an emphasis of matter paragraph referring to a note to the financial statements that more extensively discusses the reason for the revision of the previously issued financial report and to the earlier report issued by the auditor.**
- 25 Under ASA 700, the auditor needs to date the new auditor's report no earlier than the date of approval of the revised financial report. Under paragraphs 8 and 24, the auditor needs to extend the audit procedures to the date of the new auditor's report. In some instances, law or regulation may permit the auditor to restrict the audit procedures regarding the revised financial report to the effects of the subsequent event that necessitated the revision. In such cases, the new auditor's report would contain a statement to that effect.
- 26 **When those charged with governance do not:**
- (a) **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**

- (b) **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.

- 27 Ordinarily, the action taken will depend on the auditor's legal rights and obligations and the recommendations of the auditor's lawyers.
- 28 It may not be necessary to revise the financial report and issue a new auditor's report when issue of the financial report for the following period is imminent, provided appropriate disclosures are to be made in such a report.

Conformity with International Standards on Auditing

- 29 Except as noted below, this Auditing Standard conforms with International Standard on Auditing ISA 560 *Subsequent Events*, issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The main differences between this Auditing Standard and ISA 560 are:

- This Auditing Standard includes the following mandatory requirements which are included as explanatory guidance in ISA 560:
 - ◆ 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);
 - ◆ 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);
 - ◆ if the financial report is subsequently released, the auditor shall take action to prevent reliance on the auditor's report (paragraph 19);
 - ◆ 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

- ◆ when those charge with governance do not:
 - 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
 - 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).

- This Auditing Standard does not contain any mandatory requirements or explanatory guidance regarding the offering of securities to the public whereas ISA 560 does.

Compliance with this Auditing Standard enables compliance with ISA 560.