

Explanatory Memorandum

Exposure Draft 03/21 Proposed Auditing Standard ASA 2021-2

Amendments to Australian Auditing Standard ASA 560 Subsequent Events

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



Australian Government

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EXPLANATORY MEMORANDUM

Exposure Draft 03/21 Proposed Auditing Standard ASA 2021-2 Amendments to Australian Auditing Standard ASA 560 Subsequent Events

Purpose

1. The AUASB is seeking feedback from stakeholders on proposed amendments to ASA 560 *Subsequent Events* (ASA 560), which are detailed in Exposure Draft 03/21 Proposed Auditing Standard ASA 2021-2 *Amendments to Australian Auditing Standard ASA 560 Subsequent Events* (ED 03/21).
2. The aim of this Explanatory Memorandum is to provide stakeholders with information about ED 03/21.

Background

3. The AUASB has a strategic objective to develop, issue and maintain high quality Australian Auditing Standards. The AUASB takes input received from Australian stakeholders into account when developing Australian Auditing Standards.
4. In 2019, the Financial Markets Authority New Zealand (FMA) raised concerns with the New Zealand Auditing and Assurance Standards Board (NZAuASB) about how to ensure that investors and other stakeholders are informed in a timely manner that they cannot rely on the audit opinion, when a fact becomes known to the auditor after the financial report have been issued 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.
5. The NZAuASB recognised that auditors face practical difficulties about how to inform users of the financial reports that they cannot rely on the auditor opinion attached to the financial reports.
6. As a result at its February 2020 meeting, the NZAuASB approved limited proposed changes to [ISA \(NZ\) 560, *Subsequent Events*](#) (ISA (NZ) 560) to clarify the timing of communications and possible actions the auditor may take when a fact becomes known after issuing the auditor's report and, had it been known to the auditor at the date of the report, may have caused the auditor to amend the auditor's report.

Conformity with IAASB's auditing standards and harmonisation with NZAuASB standards

7. In accordance with its mandates under section 227 of the *ASIC Act 2001* and the Financial Reporting Council's (FRC) Strategic Direction, the AUASB's policy is to adopt the IAASB's auditing standards (ISAs), unless there are compelling reasons not to do so, and to amend the ISAs only when there are compelling reasons to do so.
8. Based on the revised *AUASB Policy and Process for International Conformance and Harmonisation of Standards*, modifications of International Standards ("The Compelling Reason Test") is triggered when the international standard does not reflect or is not consistent with Australian legal and regulatory arrangements; or principles and practices that are appropriate having regard to the public interest in Australia. Further to "The Compelling Reason Test", the joint objective of the NZAuASB and AUASB is to achieve a harmonised set of assurance standards between New Zealand and Australia, based on international standards¹.
9. The NZAuASB deliberated on "The Compelling Reason Test" at its October 2019 meeting and concluded that the proposed modification clarifies the timing of the communication required by the international standard and provides guidance on the actions the auditor may

¹ See *AUASB Policy and Process for International Conformance and Harmonisation of Standards* (updated June 2021).

take to seek to prevent reliance on the auditor's report, thus "The Compelling Reason Test" has been met.

10. In seeking harmonisation between New Zealand and Australia, the standards should be consistent or compatible to the extent that they do not result in barriers for users for the standards in the Trans-Tasman environment. However, in recognition that each of the Boards may act autonomously and independently there may be instances where standards may differ because of country specific requirements and public interest considerations in each jurisdiction¹.
11. As part of the process of harmonisation with New Zealand standards, the AUASB considered whether the changes made by the NZAuASB covers a matter not covered in the international standard and reflects principles and practices having regard to the public interest in Australia¹.
12. The AUASB agreed to make limited scope amendments to ASA 560 to harmonise with the New Zealand standard. The proposed amendments included in ED 03/21 are consistent with the New Zealand standard, however the AUASB has made some editorial amendments to provide additional clarity on the possible actions the auditor may take when a fact becomes known after issuing the auditor's report and, had it been known to the auditor at the date of the report, may have caused the auditor to amend the auditor's report.
13. Extant ASA 560 conforms with International Standard on Auditing ISA 560. The proposed amendments contained in ED 03/21 do not change the meaning of the ISA nor place more onerous requirements on the auditor. Rather, it is a clarification of the extant requirements and consequently the AUASB considers that the proposed amendment to ASA 560 conforms with ISA 560.

Key proposals contained in ED 03/21

14. ED 03/21 proposes amendments to ASA 560 to clarify the timing of communications and provide guidance on the possible actions the auditor may take when facts become known to the auditor after the financial reports have been issued 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.
15. An extract of ASA 560 together with the proposed amendments is attached in Appendix 1, with the aim of providing context around the proposed amendments. The proposed amendments in ED 03/21 are shown as underlined texts in Appendix 1.

Exposure Draft Questions

The AUASB is seeking comments on ED 03/21 from stakeholders on the following questions:

1. Do you agree with the proposed amendments to ASA 560 to harmonise with ISA (NZ) 560 and that these changes are in the public interest?
2. Do respondents have any other specific comments on ED 03/21, including, but not limited to, the proposed effective date, applicable laws/regulations, principles/practices preventing application, additional significant compliance costs/benefits or significant public interest² matters (please be specific)?

The AUASB ask that comments are sufficiently detailed and include whether stakeholders agree or do not agree with the proposed amendments. The AUASB welcome any other comments which are not specifically addressed by questions above.

NB: As amendments to this standard are limited in nature, the AUASB have not included all the Exposure Draft Questions which would normally be included in the case of a full revision or new AUASB standard.

Application

16. The proposed effective date of the amendment is for financial reporting periods commencing on or after 15 December 2021, with early adoption permitted.

Comment Date

17. Comments to the AUASB will close on 30 July 2021.
18. At the completion of the exposure period, the AUASB will consider stakeholders' submissions.

Website Resources

19. ED 03/21 is available on the AUASB website.

² The AUASB's *Public Interest Framework for the Development of AUASB Pronouncements* expands upon what the "public interest" means to the AUASB and provides a useful frame of reference for the AUASB to assess whether its standard-setting process is appropriate and responsive to the public interest. See Appendix 1 of the AUASB's *Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications*.

Extract from ASA 560:

Requirements

...

Facts Which Become Known to the Auditor after the Financial Report Has Been Issued

14. [Deleted by the AUASB. Refer Aus 14.1.]

Aus 14.1 After the financial report has been issued, the auditor has no obligation to perform any audit procedures regarding such financial report. However, if, after the financial report has been 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, within a reasonable period of time:

- (a) Discuss the matter with management and, where appropriate, those charged with governance;
- (b) Determine whether the financial report needs amendment and; if so,
- (c) Enquire how management intends to address the matter in the financial report.

15. If management amends the financial report, the auditor shall: (Ref: Para. A19)

- (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 report together with the auditor's report thereon is informed of the situation.
- (c) Unless the circumstances in paragraph 12 of this Auditing Standard apply:
 - (i) Extend the audit procedures referred to in paragraphs 6 and 7 of this Auditing Standard 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 report; and
 - (ii) Provide a new auditor's report on the amended financial report.
- (d) When the circumstances in paragraph 12 of this Auditing Standard apply, amend the auditor's report, or provide a new auditor's report as required by paragraph 12 of this Auditing Standard.

16. The auditor shall include in the new or amended auditor's report an Emphasis of Matter paragraph or Other Matter(s) 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.

17. If management, or those charged with governance, do not take the necessary steps to ensure that anyone in receipt of the previously issued financial report is informed of the situation and does not amend the financial report in circumstances where the auditor believes they need to be amended, the auditor shall notify management and, unless all of those charged with governance are involved in managing the entity,⁷ those charged with governance, that the auditor will 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 appropriate action to seek to prevent reliance on the auditor's report.
(Ref: Para. A20-Aus A20.1)

⁷ See ASA 260 *Communication with Those Charged with Governance*, paragraph 13.

Application and Other Explanatory Material

...

Implications of Other Information Received after the Financial Report Has Been Issued

(Ref: Para. 14)

- A18. The auditor's obligations regarding other information received after the date of the auditor's report are addressed in ASA 720. While the auditor has no obligation to perform any audit procedures regarding the financial report after the financial report has been issued, ASA 720 contains requirements and guidance with respect to other information obtained after the date of the auditor's report.

Facts Which Become Known to the Auditor after the Financial Report Has Been Issued

No Amendment of the Financial Report by Management (Ref: Para. 15)

Considerations Specific to Public Sector Entities

- A19. In some jurisdictions, entities in the public sector may be prohibited from issuing an amended financial report by law or regulation. In such circumstances, the appropriate course of action for the auditor may be to report to the appropriate statutory body.

Auditor Action to Seek to Prevent Reliance on Auditor's Report (Ref: Para. 17)

- A20. Where the auditor believes that management, or those charged with governance, have failed to take the necessary steps to prevent reliance on the auditor's report on the financial report previously issued by the entity despite the auditor's prior notification that the auditor will take action to seek to prevent such reliance, the auditor's course of action depends upon the auditor's legal rights and obligations. Consequently, the auditor may consider it appropriate to seek legal advice.

Aus A20.1 In addition to considering if it is appropriate to obtain legal advice in accordance with paragraph A20, other possible actions the auditor may consider include:

- (a) Notifying management and those charged with governance that the auditor's report must no longer be associated with the financial report;
- (b) If applicable, notifying the appropriate authority having jurisdiction over the entity that the auditor's report should no longer be relied upon, and requesting the authority to take steps to provide appropriate disclosure.
- (c) Notifying users of the financial report that the auditor's report should no longer be relied upon. Such notifications could be through direct communication or by broader means such as through a public notice.