

# INTERNATIONAL STANDARD ON AUDITING 560

## SUBSEQUENT EVENTS

(Effective for audits of financial statements for periods  
beginning on or after December 31, 2006)\*

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International Standard on Auditing (ISA) 560, "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 application and authority of ISAs.

\* ISA 315, "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement," ISA 330, "The Auditor's Procedures in Response to Assessed Risks," and ISA 500, "Audit Evidence" gave rise to conforming amendments to ISA 560. The conforming amendments are effective for audits of financial statements for periods beginning on or after December 15, 2004 and have been incorporated in the text of ISA 560.

ISA 700, "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" also gave rise to conforming amendments to ISA 560. These amendments are effective for auditors' reports dated on or after December 31, 2006 and have been incorporated in the text of ISA 560.

## Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the auditor's responsibility regarding subsequent events. In this ISA, the term "subsequent events" is used to refer to both events occurring between the date of the financial statements and the date of the auditor's report, and facts discovered after the date of the auditor's report.
2. **The auditor should consider the effect of subsequent events on the financial statements and on the auditor's report.**
3. 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 and identifies two types of events:
  - (a) Those that provide evidence of conditions that existed at the date of the financial statements; and
  - (b) Those that are indicative of conditions that arose after the date of the financial statements.

## Definitions

4. The following terms have the meanings attributed below:
  - (a) "Date of the financial statements" is the date of the end of the latest period covered by the financial statements, which is normally the date of the most recent balance sheet in the financial statements subject to audit.
  - (b) "Date of approval of the financial statements" is the date on which those with the recognized authority assert that they have prepared the entity's complete set of financial statements, including the related notes, and that they have taken responsibility for them. In some jurisdictions, the law or regulation identifies the individuals or bodies (for example, the directors) that are responsible for concluding that a complete set of financial statements 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 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 a complete set of financial statements has been prepared.

- (c) “Date of the auditor’s report” is the date selected by the auditor to date the report on the financial statements. 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 statements.<sup>1</sup> Sufficient appropriate audit evidence includes evidence that the entity’s complete set of financial statements has been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.
- (d) “Date the financial statements are issued” is the date that the auditor’s report and audited financial statements 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

5. **The auditor should 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 statements have been identified.** These procedures 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 cutoff 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.
6. The audit procedures to identify events that may require adjustment of, or disclosure in, the financial statements would be performed as near as practicable to the date of the auditor’s report. Such audit procedures take into account the auditor’s risk assessment 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, including established committees such as relevant executive committees and the audit committee, held after the date of the financial statements and inquiring about matters discussed at meetings for which minutes are not yet available.
  - Reading the entity’s latest available interim financial statements and, as considered necessary and appropriate, budgets, cash flow forecasts and other related management reports.

<sup>1</sup> 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.

- Inquiring, or extending previous oral or written inquiries, of the entity's legal counsel concerning litigation and claims.
  - Inquiring of management as to whether any subsequent events have occurred which might affect the financial statements. Examples of inquiries of management on specific matters are:
    - 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 or acquisitions 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.
    - 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.
7. When a component, such as a division, branch or subsidiary, is audited by another auditor, the auditor would consider the other auditor's procedures regarding events after the date of the financial statements and the need to inform the other auditor of the planned date of the auditor's report.
8. **When the auditor becomes aware of events which materially affect the financial statements, the auditor should consider whether such events are properly accounted for and adequately disclosed in the financial statements.**

**Facts Discovered After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued**

9. The auditor does not have any responsibility to perform audit procedures or make any inquiry regarding the financial statements after the date of the auditor's report. During the period from the date of the auditor's report to the

date the financial statements are issued, the responsibility to inform the auditor of facts which may affect the financial statements rests with management.

10. **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 which may materially affect the financial statements, the auditor should consider whether the financial statements need amendment, should discuss the matter with management, and should take the action appropriate in the circumstances.**
11. When management amends the financial statements, the auditor would carry out the audit procedures necessary in the circumstances and would provide management with a new report on the amended financial statements. The new auditor's report would be dated not earlier than the date of approval of the amended financial statements and, accordingly, the audit procedures referred to in paragraph 5 would be extended to the date of the new auditor's report.
12. **When management does not amend the financial statements in circumstances where the auditor believes they need to be amended and the auditor's report has not been released to the entity, the auditor should express a qualified opinion or an adverse opinion, as described in ISA 701, "Modifications to the Independent Auditor's Report."**
13. When the auditor's report has been released to the entity, the auditor would notify those charged with governance of the entity not to issue the financial statements and the auditor's report thereon to third parties. If the financial statements are subsequently released, the auditor needs to take action to prevent reliance on the auditor's report. The action taken will depend on the auditor's legal rights and obligations and the recommendations of the auditor's lawyer.

#### **Facts Discovered After the Financial Statements have been Issued**

14. After the financial statements have been issued, the auditor has no obligation to make any inquiry regarding such financial statements.
15. **When, after the financial statements have 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 should consider whether the financial statements need revision, should discuss the matter with management, and should take the action appropriate in the circumstances.**
16. When management revises the financial statements, the auditor would carry out the audit procedures necessary in the circumstances, would 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 would issue a new report on the revised financial statements.

17. **The new auditor's report should include an emphasis of a matter paragraph referring to a note to the financial statements that more extensively discusses the reason for the revision of the previously issued financial statements and to the earlier report issued by the auditor.** The new auditor's report would be dated not earlier than the date of approval of the revised financial statements and, accordingly, the audit procedures referred to in paragraph 5 would ordinarily be extended to the date of the new auditor's report. Local regulations of some countries permit the auditor to restrict the audit procedures regarding the revised financial statements 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.
18. When 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 revise the financial statements in circumstances where the auditor believes they need to be revised, the auditor would notify those charged with governance of the entity that action will be taken by the auditor to prevent future reliance on the auditor's report. The action taken will depend on the auditor's legal rights and obligations and the recommendations of the auditor's lawyers.
19. It may not be necessary to revise the financial statements and issue a new auditor's report when issue of the financial statements for the following period is imminent, provided appropriate disclosures are to be made in such statements.

### **Offering of Securities to the Public**

20. **In cases involving the offering of securities to the public, the auditor should consider any legal and related requirements applicable to the auditor in all jurisdictions in which the securities are being offered.** For example, the auditor may be required to carry out additional audit procedures to the date of the final offering document. These procedures would ordinarily include carrying out the audit procedures referred to in paragraphs 5 and 6 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.

### **Effective Date**

21. This ISA is effective for auditors' reports dated on or after December 31, 2006.