INTERNATIONAL STANDARD ON AUDITING 560

SUBSEQUENT EVENTS

(This Standard is effective, but contains conforming amendments that become effective at a future date)*

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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, Assurance and Related Services," which sets out the application and authority of ISAs.

* The Audit Risk Standards, comprising 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 (Revised), "Audit Evidence," gave rise to conforming amendments to ISA 560. These amendments are effective for audits of financial statements for periods beginning on or after December 15, 2004.

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 period end 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 10, "Contingencies and Events Occurring After the Balance Sheet Date" deals with the treatment in financial statements of events, both favorable and unfavorable, occurring after period end and identifies two types of events:

   (a) Those that provide further evidence of conditions that existed at period end; and

   (b) Those that are indicative of conditions that arose subsequent to period end.

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

4. **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 ~~routine~~ procedures which may be applied to specific transactions occurring after period end to obtain audit evidence as to account balances as at period end, 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.

5. 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 ~~the board of directors~~, including established committees such as relevant ~~and audit and~~ executive committees and the audit committee, held after period end 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.
- Inquiring, or extending previous oral or written inquiries, of the entity's legal counsel ~~lawyers~~ 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 acquisition 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.

6. 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 period end and the need to inform the other auditor of the planned date of the auditor's report.

7. **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 Financial Statements are Issued

8. 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.

9. **When, after the date of the auditor's report but before 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.**

10. 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 the amended financial statements are signed or approved and, accordingly, the audit procedures referred to in paragraphs 4 and 5 would be extended to the date of the new auditor's report.

11. **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.**

12. When the auditor's report has been released to the entity, the auditor would notify those charged with governance ~~persons ultimately responsible for the overall direction 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

13. After the financial statements have been issued, the auditor has no obligation to make any inquiry regarding such financial statements.

14. **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.**

15. 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.

16. **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 the revised financial statements are approved and, accordingly, the audit procedures referred to in paragraphs 4 and 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.

17. 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 ~~persons ultimately responsible for the overall direction~~ 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.

18. 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

19. **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 4 and 5 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.