

ASA 560 Subsequent Events

OBJECTIVE

The objective of this Fact Sheet is to explain the auditor's role in relation to the auditor's responsibility subsequent events.

APPLICATION

Financial reporting periods commencing on or after 1 July 2006.

Definitions

"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.

"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.

"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. Sufficient appropriate audit evidence includes 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.

"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.

"Subsequent events" is used in ASA 560 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.

Management's responsibility

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:

- those that provide evidence of conditions that existed at the reporting date (*adjusting events after the reporting date*); or
- those that are indicative of conditions that arose after the reporting date (*non-adjusting events after the reporting date*).

Auditor's responsibility

The auditor is required under ASA 560 to consider the effect of subsequent events on the financial report and on the auditor's report.

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

The auditor is required under ASA 560 to 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. 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. The auditor is not, however, expected to conduct a continuing review of all matters to which previously applied audit procedures have provided satisfactory conclusions.

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 :

- 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.

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.

When the auditor becomes aware of events which materially affect the financial report, the auditor is required under ASA 560 to 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

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.

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 is required under ASA 560 to 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.

When the financial report is amended, the auditor is required under ASA 560 to 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.

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, the auditor needs to extend the requisite audit procedures to the date of the new auditor's report.

When the financial report is not amended, in circumstances where the auditor believes it needs to be and the auditor's report has not been released to the entity, the auditor is required under ASA 560 to express a modified opinion, as described in ASA 701 *Modifications to the Auditor's Report*. When the auditor's report has been released to the entity, the auditor is required under ASA 560 to notify those charged with governance not to issue the financial report and the auditor's report thereon to third parties.

If the financial report is subsequently released, the auditor is required under ASA 560 to take action to prevent reliance on the auditor's report. 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

After the financial report has been issued, the auditor has no obligation to make any enquiry regarding such a financial report. However, 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 is required under ASA 560 to 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.

When the financial report is revised, the auditor is required under ASA 560 to carry out the audit procedures necessary in the circumstances, to 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 to issue a new report on the revised financial report.

The new auditor's report is required to 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.

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. 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.

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When those charged 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 is required under ASA 560 to take action with the objective of preventing future reliance on the auditor's report and shall notify those charged with governance of this action. Ordinarily, the action taken will depend on the auditor's legal rights and obligations and the recommendations of the auditor's lawyers.

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.

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