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# Basis for Conclusions: ISA 560 (Redrafted), Subsequent Events

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*Prepared by the Staff of the International Auditing and  
Assurance Standards Board*



**International Federation  
of Accountants**

**BASIS FOR CONCLUSIONS:  
ISA 560 (REDRAFTED), SUBSEQUENT EVENTS**

This Basis for Conclusions has been prepared by staff of the International Auditing and Assurance Standards Board (IAASB). It relates to, but does not form part of, ISA 560 (Redrafted), “Subsequent Events,” which was unanimously approved by the IAASB in December 2007.<sup>1</sup>

**Background**

1. In September 2006, the IAASB agreed the conventions to be used in drafting future International Standards on Auditing (ISAs). These conventions are commonly referred to as the IAASB’s Clarity conventions.<sup>2</sup>
2. The IAASB has undertaken to redraft all of its ISAs in accordance with the Clarity conventions. This approach responds to the desire for all ISAs to be consistently drafted, and subject to a single statement of their authority and effect. The IAASB has agreed, in response to the general call for the Clarity project to be completed within a reasonable time that, while a significant number of the ISAs are under substantive revision as well as redrafting to reflect the new conventions, others will be subject to a limited redrafting to reflect only the conventions and matters of clarity generally. ISA 560 is in the latter category.
3. The IAASB issued an exposure draft of proposed ISA 560 (Redrafted) (ED-ISA 560) in December 2006, with a comment date of March 31, 2007. The IAASB received forty-six comment letters from a variety of respondents, including IFAC member bodies, national standard setters, firms, regulators, government organizations, and others. Input was also received from IFAC’s Small and Medium Practices Committee. The IAASB made changes to ED-ISA 560 in response to these comments. In addition, the IAASB discussed significant issues in the development of ED-ISA 560, and the finalization of ISA 560 (Redrafted), with its Consultative Advisory Group (CAG). The CAG raised no significant concerns about the proposed treatment of these issues with the IAASB.
4. This Basis for Conclusions explains the more significant issues raised by respondents on ED-ISA 560, and how the IAASB addressed them. In general, ED-ISA 560 received strong support from respondents in terms of how the extant ISA had been redrafted in accordance with the IAASB’s Clarity conventions.

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<sup>1</sup> See minutes of the December 8-12, 2007 IAASB meeting at <http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0141&ViewCat=0923>.

<sup>2</sup> The IAASB’s Clarity conventions, and the authority and obligation attaching to them, are established in the amended Preface to International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services (Preface.) The amended Preface can be accessed at [http://www.ifac.org/download/IAASB\\_Preface.pdf](http://www.ifac.org/download/IAASB_Preface.pdf). Elements of the authority and obligation attaching to the Clarity conventions have been exposed as part of proposed ISA 200 (Revised and Redrafted), “Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing.”

## Scope and Form of the Objectives

5. Several respondents observed that the ISA does not deal with the consequences for the auditor's report of events occurring between the date of the financial statements and the date of the auditor's report that materially affect the financial statements, but that are not properly accounted for or adequately disclosed.
6. The IAASB considered this matter, and concluded that there is no need to introduce in ISA 560 (Redrafted) separate reporting requirements relating to subsequent events occurring between the date of the financial statements and the date of the auditor's report. The reporting ISAs (i.e., proposed ISAs 705 (Revised and Redrafted) and 706 (Revised and Redrafted)<sup>3</sup> already deal with circumstances where misstatements have been identified before the date of the auditor's report. Furthermore, paragraph 12 of ED-ISA 560 (paragraph 13 of ISA 560 (Redrafted)) provides the necessary reference to proposed ISA 705 (Revised and Redrafted) in relation to the auditor's consideration of the impact on the auditor's report of subsequent events that become known to the auditor after the date of the auditor's report but before that report has been provided to the entity, where these events are not adequately reflected in the financial statements.
7. A few respondents were also of the view that the objectives should specifically mention the auditor's responsibility to identify events occurring between the date of the financial statements and the date of the auditor's report. In addition, one respondent suggested that not all requirements are covered by the proposed objectives, and one commented that the objectives were not sufficiently outcome-oriented.
8. The IAASB reconsidered whether the objectives reflect all of the requirements of the ISA and concluded that they do. In particular, the IAASB noted that it is the auditor's responsibility to obtain sufficient appropriate audit evidence about whether subsequent events are appropriately reflected in the financial statements. This wording encompasses the identification of such subsequent events, including any that have not already been identified by management.
9. The IAASB reconsidered the form of the objective and noted that it is consistent with the objectives in other clarified ISAs, aligns appropriately with the overall objectives of the auditor in proposed ISA 200 (Revised and Redrafted), and is sufficiently outcome-oriented. However, to avoid any ambiguity as to the scope of the objectives, the IAASB revised the wording of the objectives to align it more closely with the wording of the relevant requirements in ISA 560 (Redrafted).

## Application to Securities Offering Documents

10. Paragraph 20 of extant ISA 560 requires, in cases involving the offering of securities to the public, that the auditor consider any legal and related requirements applicable to the auditor in all jurisdictions in which the securities are being offered. Furthermore, the paragraph

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<sup>3</sup> Proposed ISA 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report," and proposed ISA 706 (Revised and Redrafted), "Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report."

provides guidance on the application of subsequent events procedures in relation to such documents. In developing ED-ISA 560, the IAASB proposed that that material be redrafted and included in the ISA as application and other explanatory material, on the basis that the auditor's responsibilities in relation to securities offering documents vary significantly among different jurisdictions and that it would be appropriate for the ISAs to retain the references to auditor's responsibilities in relation to such documents without having undertaken a specific project to understand the nature and scope of these responsibilities in various jurisdictions.

11. Many respondents expressed support for the proposed treatment, and none suggested that text relating to securities offering documents be retained as a requirement. Some respondents suggested it be deleted altogether. Several respondents took the view that there is a need for international standards on investment circular reporting. One regulator respondent agreed with the disposition of the matter into the application and other explanatory material on the condition that a new, high-priority project be commenced on this issue.
12. The IAASB deliberated the matter in light of the various respondents' views, and reaffirmed its decision to remove the requirement of paragraph 20 of the extant ISA on the basis that the ISAs govern audits, but not other engagements, in relation to historical financial information. The IAASB noted that the treatment of the material as application and other explanatory material was appropriate for purposes of drawing the auditor's attention, by means of an example, to potential considerations that might otherwise be overlooked. As such, this guidance serves to alert auditors only. Further, this treatment of securities offering documents is consistent with the treatment of the same issue in ISA 720 (Redrafted).<sup>4</sup> In addition, it was considered appropriate to retain the guidance, as some respondents did find it helpful.

## **Subsequent Events Audit Procedures**

### **Requirements and Guidance on Common Subsequent Events Procedures**

13. One regulator respondent suggested that there appears to be a lack of requirements and guidance in relation to work that would be routinely done by the auditor to identify subsequent events, such as examining books and records, bank statements (e.g., for cash receipts and disbursements), and other procedures subsequent to the date of the financial statements.
14. The IAASB concluded that the proposed requirements faithfully clarify the extant ISA, and that such routine procedures are covered in a principles-based manner by the requirements in paragraphs 6 and 7 of ISA 560 (Redrafted). The IAASB believes that paragraph 6 of ISA 560 (Redrafted) requires the auditor to perform procedures over and above those specifically mentioned in paragraph 7, if these are necessary; paragraphs A7-A10 give examples of the sort of procedures meant.

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<sup>4</sup> ISA 720 (Redrafted), "The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements."

15. Nevertheless, the IAASB accepted that further clarification could be achieved and, accordingly, it added guidance to paragraph A6 of ISA 560 (Redrafted) to explain that, depending on the auditor's risk assessment, the audit procedures required by paragraph 6 of ISA 560 (Redrafted) may include procedures, necessary to obtain sufficient appropriate audit evidence, involving the review or testing of accounting records or transactions occurring between the date of the financial statements and the date of the auditor's report. In addition, the IAASB amended the text in paragraph A7 of ISA 560 (Redrafted) to further clarify that procedures performed for other purposes may be useful in obtaining sufficient appropriate audit evidence in respect of subsequent events.

### **Applicability of Certain of the Required Audit Procedures**

16. Paragraph 7 of ED-ISA 560 specified certain audit procedures that the auditor shall perform when obtaining sufficient appropriate audit evidence whether all subsequent events that require adjustment of, or disclosure in, the financial statements have been identified. A number of respondents remarked that not all of the specified audit procedures can be performed in virtually all engagements. In particular, concern was expressed in relation to the reading of minutes of meetings held after the date of the financial statements and inquiring about matters discussed at meetings for which minutes are not yet available, and the reading of the entity's latest available interim external financial statements and interim internal management financial statements (paragraph 7(b) and (c) of ED-ISA 560), because not all the information listed will exist in every entity at the time the audit is performed.
17. The IAASB concluded that when information such as that described in paragraph 7(b) and (c) of ED-ISA 560 exists, it must always be subject to procedures required therein. However, the IAASB acknowledged that the clarity of the requirements would be enhanced if the conditionality of the requirements (i.e., the condition that such information does exist at the time the audit is performed) was made more prominent. Accordingly, the IAASB agreed to rephrase these audit procedures as conditional requirements.
18. One audit firm respondent suggested that, if the auditor performs the procedures set forth in paragraph 7 (a)-(d) of ED-ISA 560 and no issues are identified, the auditor will have obtained sufficient appropriate audit evidence related to subsequent events and hence, need not do anything further. The IAASB did not accept this suggestion, on the basis that the nature of the procedures that an auditor needs to perform to comply with the requirement in paragraph 6 of ED-ISA 560 will depend on the auditor's risk assessment in the particular engagement circumstances. The IAASB believes that this, and the fact that the IAASB did not intend to limit the procedures required to those specified procedures, were clear in the wording of paragraphs 6 and 7 of ED-ISA 560.

### **Responsibility to Amend the Financial Statements**

19. A few respondents were of the view that the ISA should distinguish better the responsibilities of management and those of the auditor in relation to amending the financial statements. For example, in the context of paragraphs 9(c) and 13(c) of ED-ISA 560, they contended that management, not the auditor, is responsible for *determining*

whether the financial statements need amendment; the auditor can assess whether this is necessary, but can neither make a determination nor determine management's future actions.

20. The IAASB accepted these views and, accordingly, amended the wording of the requirement in paragraphs 10(c) and 14(c) of ISA 560 (Redrafted) to make it clear that management is responsible for any amendments to the financial statements after the financial statements have been issued, and that the auditor's responsibilities are separate from those of management. However, the IAASB concluded that the use of the imperative "determine" is appropriate in paragraphs 9(b) and 14(b) of ED-ISA 560 (paragraphs 10(b) and 14(b) of ISA 560 (Redrafted)), since the auditor needs to reach an opinion independent from that of management.

## **Dual Dating of the Auditor's Report**

### **Appropriateness of Dual Dating**

21. Paragraphs 11 and 17 of extant ISA 560 include guidance that, when management has revised the financial statements due to facts discovered after the date of the auditor's report, the auditor would provide management with, or issue, a new auditor's report and extend the subsequent events audit procedures required by paragraph 5 of extant ISA 560 to the date of the new auditor's report. Furthermore, paragraph 17 of extant ISA 560 requires that the new auditor's report include an Emphasis of Matter paragraph referring to the note in 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. However, paragraph 17 of extant ISA 560 also provides for an exception by allowing the auditor to restrict the subsequent events procedures regarding the revised financial statements to the effects of the subsequent event that necessitated the revision, when local regulations in the country permit this and the new auditor's report contains a statement to that effect.
22. In developing ED-ISA 560, the majority of the IAASB took the view that this exception allows auditors to limit their subsequent events procedures in cases when dating the report both as at the date of the original report and as at the date of the amendments ("dual dating") is not prohibited by local regulations. The IAASB agreed to make this clearer in the course of redrafting the ISA; this involved turning some guidance into a requirement. Further, rather than allowing such an exception based on local regulations, the IAASB chose to base the exception on whether the financial reporting framework allows management to restrict the amendment of the financial statements to the effects of subsequent events causing the amendment and whether those responsible for approving the amended financial statements are permitted to restrict their approval to that amendment. As local regulations to which the financial statements are subject are encompassed within the definition of the applicable financial reporting framework, this would not limit the effects of local regulations on this matter.
23. Although the majority of respondents to ED-ISA 560 expressed support for the proposed treatment, a few respondents believed that the change proposed is substantive in nature

(i.e., beyond clarity) or disagreed with the specification of the material as requirements. A few respondents also disagreed that the circumstances should be extended to facts that become known before the date the financial statements are issued. These respondents viewed the extension as a substantive change and more difficult to understand because it would be easy to issue a new report in those circumstances. Several respondents suggested the text of extant ISA 560 referring to local regulations should be retained rather than changed to refer to financial reporting framework.

24. Since there were different views on whether the extant ISA allows dual dating, it is apparent that the extant ISA is unclear on the point. Clarification can only be achieved by making a decision to allow or disallow dual dating. Accordingly, the IAASB concluded that ISA 560 (Redrafted) should make clear that dual dating is permitted, but only in certain circumstances, and to clarify those circumstances. Consequently, the IAASB agreed to retain in ISA 560 (Redrafted) the requirements permitting dual dating as proposed in ED-ISA 560.
25. With respect to suggestions that the drafting should revert to the reference to local regulations as opposed to the financial reporting framework, but to also take into account that sometimes local regulations or the financial reporting framework is silent on the subject, the IAASB amended the text in paragraph 12 of ISA 560 (Redrafted) to read "...when law, regulation or the financial reporting framework does not prohibit management..." The IAASB also clarified in paragraph 12 of the requirements of ISA 560 (Redrafted), that dual dating can be performed through either:
  - (a) Amending the auditor's report to include an additional date restricted to that amendment that thereby indicates that the auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements described in the relevant note to the financial statements; or
  - (b) Providing a new or amended auditor's report that includes a statement in an Emphasis of Matter paragraph or Other Matter(s) paragraph that conveys that the auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements as described in the relevant note to the financial statements.

### **Dual Dating and Timing of Dates**

26. Several respondents appeared to be confused as to why there would be a need for dual dating when the auditor had not yet issued the auditor's report to the entity. In respect of paragraph 11 of ED-ISA 560, these respondents questioned why, when an auditor's report is dated but not issued, it cannot be replaced (i.e., withdrawn) rather than dual dated. A few other respondents noted that dual dating would be confusing to users or auditors, because it is not clear what "dual dating" is.
27. The IAASB noted that situations may occur in which the auditor's report has been signed by the auditor with an appropriate report date, but not yet provided to the entity (see explanation in the last sentence of paragraph A3 of ISA 560 (Redrafted)). When a fact then becomes known to the auditor after having signed the auditor's report but before having provided it to the entity, where that fact had it been known to the auditor at the date of the

28. The IAASB deliberated whether to provide additional guidance on the issue of the need for dual dating when an auditor's report has not been provided to the entity. The IAASB concluded that such direct guidance may serve to exacerbate confusion. Rather, the IAASB believes that it would be more effective to clarify the meaning of the different dates described in the Definitions section of ISA 560 (Redrafted) through additional explanatory guidance to these definitions (see paragraphs A3 and A4 of ISA 560 (Redrafted)).
29. The IAASB also concluded that an illustrative example of dual dating would be useful, as suggested by one respondent, as the practice of dual dating may not be well understood in some jurisdictions. The IAASB has included such an example in paragraph A12 of ISA 560 (Redrafted).

### **Withdrawal of the Auditor's Report**

30. Paragraph 12 of ED-ISA 560 required that the auditor take action to prevent reliance on the auditor's report when management or those charged with governance issue financial statements that the auditor believes need amendment. Similarly, paragraph 17 of ED-ISA 560 required that the auditor take action to prevent future reliance on the auditor's report when management or those charged with governance do not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements and auditor's report thereon is informed of the situation that requires the financial statements to be amended or the auditor to modify the auditor's report and the necessary amendments have not been made. An audit firm respondent and a regulator respondent suggested that the auditor be empowered to withdraw the original auditor's report and issue a new one rather than simply to "take action" to prevent reliance on the auditor's report.
31. The IAASB was of the view that the withdrawal of the original auditor's report by the auditor would constitute an appropriate action in some circumstances. The IAASB concluded, however, that the ISAs cannot require the withdrawal of the auditor's report as different legal and regulatory requirements exist in different jurisdictions.

### **Public Sector Audit Considerations**

32. Paragraphs 10 and 14 of ED-ISA 560 required that the auditor issue a new auditor's report on the amended financial statements when management has amended these due to facts becoming known to the auditor after the date of the auditor's report. As part of the exposure of ED-ISA 560, the IAASB sought views on the application of these requirements in the audit of public sector entities – in particular whether there are circumstances in which the auditor of the financial statements of the public sector entity is prohibited by law or regulation from issuing a new auditor's report on the amended financial statements.
33. Whilst a few respondents noted that they knew of no law or regulation that would prohibit an auditor from issuing a new auditor's report on any amended financial statements prepared by a public sector entity, others indicated that some such circumstances exist. It



was explained that in at least one jurisdiction, in relation to local authorities, the auditor issues a certificate of completion of the audit, usually at the same time as the opinion on the financial statements. The effect of the certificate is to bring to an end the auditor's statutory functions in respect of the financial statements. The respondents suggested that further guidance should be introduced for auditors of public sector entities to clarify that re-issuing the financial statements and the audit opinion may not be permitted by law or regulation and to explain the appropriate course of action in the circumstances.

34. The IAASB agreed with this suggestion. Accordingly, the IAASB added further guidance in paragraph A17 of ISA 560 (Redrafted), as suggested by a few respondents, to explain that, in some jurisdictions, entities in the public sector may be prevented from issuing amended financial statements by law or regulation and that, in such circumstances, the appropriate course of action for the auditor may be to report to the appropriate statutory body.

### **Essential Explanatory Material**

35. ED-ISA 560 included essential explanatory material within the Requirements section that, in the IAASB's view, serves to clarify the responsibilities of the auditor, such as to allow the related requirements to be understood on a stand-alone basis. Examples of such text were in paragraphs 6, 9 and 13 of ED-ISA 560. Four respondents were of the view that such material is explanatory in nature and, accordingly, should be presented in the Application and Other Explanatory Material section of the ISA.
36. Other respondents, however, supported the treatment of the material as essential explanatory material, and recommended that similar treatment be provided for other similar text, in particular the material in paragraph A10 of ED-ISA 560 that states when, in some jurisdictions, law, regulation or the financial reporting framework may permit management not to issue the amended financial statements, the auditor need not issue a new auditor's report.
37. The IAASB has agreed in principle to limit the extent of essential explanatory material in the Requirements sections of ISAs in light of comments on the exposure of other clarified ISAs; such material may introduce ambiguity in relation to the responsibilities of the auditor. The IAASB, however, concluded that treatment should be determined on a case-by-case basis. In the case of ED-ISA 560, the IAASB concluded that the essential explanatory material in paragraphs 6, 9 and 13 is sufficiently important to the description of the auditor's responsibility to have it remain in the Requirements section. Further, the IAASB concluded that the first sentence of paragraph A10 of ED-ISA 560 provides the basis for the requirement to which it relates and appropriately clarifies the auditor's responsibility with respect to providing an amended or a new auditor's report. Accordingly, it has been repositioned as essential explanatory material to the requirement in paragraph 13 of ISA 560 (Redrafted).

### **Conditional Requirements**

38. Two respondents noted that conditional requirements in ED-ISA 560, as well as in other clarified ISAs, appear to depart from the established Clarity redrafting criterion of

39. The matter of conditional requirements was discussed by the IAASB in developing ED-ISA 560 as well as proposed ISA 570 (Redrafted).<sup>5</sup> The IAASB agreed in principle that conditional requirements are appropriate when they ensure that auditors, when confronted with certain circumstances, act appropriately, or at least in a consistent manner (i.e., when their absence may adversely affect the quality or consistency of audits having regard to the international context). This approach is relevant when, in the case of circumstances that are reasonably likely to exist or arise in an engagement, the requirement is considered necessary to the consistent application of the ISA and the action specified is expected to be appropriate in virtually all such circumstances. The IAASB CAG expressed its support for this approach. The IAASB has updated its Clarity conventions to reflect this position.

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<sup>5</sup> Proposed ISA 570 (Redrafted), “Going Concern.”





**International Federation of Accountants**

545 Fifth Avenue, 14<sup>th</sup> Floor, New York, NY 10017 USA

Tel +1 (212) 286-9344 Fax +1(212) 286-9570 [www.ifac.org](http://www.ifac.org)