

EXPOSURE DRAFT

**AMENDMENTS: ISA (NZ) 560 SUBSEQUENT
EVENTS**

ED NZAuASB 2019-2

Invitation to Comment

November 2019

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Information for Respondents

Invitation to Comment

The New Zealand Auditing and Assurance Standards Board (NZAuASB)¹ is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising *Amendments: ISA (NZ) 560 Subsequent Events*.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions or issues that are relevant to you.

Comments should be submitted electronically using our '[Open for comment](#)' page.

Please indicate whether the comments are made on your own behalf, on behalf of a group of people, or on behalf of an entity.

The closing date for submissions is 13 December 2019

Publication of Submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and may, therefore, be released in part or full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

¹ The NZAuASB is a sub-Board of the External Reporting Board and is responsible for setting auditing and assurance standards.

List of Abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
ISAs (NZ)	International Standards on Auditing (New Zealand)
ITC	Invitation to comment
NZAuASB	New Zealand Auditing and Assurance Standards Board
XRB	External Reporting Board

Summary of Questions for Respondents

1. Is the proposed amendment to ISA (NZ) 560 to clarify the timing of the auditor's communication to management and, where appropriate, those charged with governance when facts become known to the auditor after the financial statements (and related auditor's report) have been issued helpful?
2. Is paragraph NZ A20.1(b) clear about who the auditor may consider notifying?
3. Do you have any other comments on ED NZAuASB 2019-2 *Amendments: ISA (NZ) 560 Subsequent Events* (please be specific)?
4. Do you agree that a lengthy transition period is not required given the limited nature of the proposed changes? If not, please explain why not.

1. Introduction

1.1 Purpose of this Invitation to Comment

1. The purpose of this Invitation to Comment is to seek feedback on the proposed amendments to ISA (NZ) 560, *Subsequent Events*.

1.2 Reasons for Issuing this Exposure Draft

2. The Financial Markets Authority has raised concerns with the 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 statements 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. This is important for all stakeholders in the financial reporting chain. It is in the public interest for the market and investors or other stakeholders to be informed in a timely manner that they can no longer rely on the audit opinion.
3. ISA (NZ) 560 deals with the auditor's responsibilities relating to subsequent events in an audit of financial statements. Paragraphs 14-17 of ISA (NZ) 560, and related application material, deal with circumstances when a fact becomes known to the auditor after the financial statements 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.
4. There are practical difficulties that auditors face about how to inform users of the financial statements that they cannot rely on the auditor opinion attached to the financial statements. Accordingly, the NZAuASB proposes to amend ISA (NZ) 560 to add guidance about possible steps the auditor could take to prevent reliance on the auditor's report.

1.3 Timeline and Next Steps

5. Submissions on ED 2019-2 are due by **13 December 2019**. Information on how to make submissions is provided on page 4 of this Invitation to Comment.
6. The NZAuASB will consider the submissions received immediately after the consultation period ends. Subject to the content of that feedback, the NZAuASB expects to issue the *Standard Amendment: ISA (NZ) 560 Subsequent Events* in early 2020.
7. The effective date for the final conforming amendments is a matter for the NZAuASB to determine. However, it is anticipated that, given the limited nature of the proposed amendments, the amendments can go into effect almost immediately.

2. Overview of Exposure Draft *Amendment: ISA (NZ) 560 Subsequent Events*

2.1 Matters Addressed in this Exposure Draft

8. The exposure draft proposes amendments to ISA (NZ) 560 to clarify the timing of communications and possible actions the auditor may take when facts become known to the auditor after the financial statements 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.
9. There are practical difficulties that auditors face about how to inform users of the financial statements that they cannot rely on the auditor opinion attached to the financial statements. Accordingly, the NZAuASB proposes to amend ISA (NZ) 560 to add guidance about possible steps the auditor could take to prevent reliance on the auditor's report.

Questions for Respondents

1. Is the proposed amendment to ISA (NZ) 560 to clarify the timing of the auditor's communication to management and, where appropriate, those charged with governance when facts become known to the auditor after the financial statements (and related auditor's report) have been issued helpful?
2. Is paragraph NZ A20.1(b) clear about who the auditor may consider notifying?
3. Do you have any other comments on ED NZAuASB 2019-2 *Amendments: ISA (NZ) 560 Subsequent Events* (please be specific)?

2.2 Effective Date

10. The NZAuASB does not consider that a lengthy transition period is required given the extent of the change is limited in nature.

Questions for Respondents

4. Do you agree that a lengthy transition period is not required given the limited nature of the proposed changes? If not, please explain why not.

EXPOSURE DRAFT NZAuASB 2019-2
Amendment: ISA (NZ) 560 Subsequent Events

CONTENTS

A: INTRODUCTION

B: PROPOSED AMENDMENTS TO ISA (NZ) 560

C: EFFECTIVE DATE

A: INTRODUCTION

This document sets out proposed amendments to ISA (NZ) 560, *Subsequent Events*.

Amended paragraphs are shown with new text underlined and deleted text struck through.

The footnote numbers within these amendments do not align with the ISAs (NZ) and reference should be made to those ISAs (NZ).

B: Proposed Amendments to International Standard on Auditing (New Zealand) 560

To clarify when the auditor should discuss the matter with management and, where appropriate, those charged with governance, paragraph 14 is amended and replaced with paragraph NZ 14.1. Paragraph NZ A20.1 is added to provide guidance of actions the auditor may consider appropriate to take to seek to prevent reliance on the auditor's report.

Requirements

...

Facts Which Become Known to the Auditor after the Financial Statements Have Been Issued

14. *Amended by the NZAuASB*

NZ 14.1 After the financial statements have been issued, the auditor has no obligation to perform any audit procedures regarding such financial statements. However, if, after the financial statements have 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: **(Ref: Para. A18)**

- (a) Discuss the matter with management and, where appropriate, those charged with governance within a reasonable period of time;
 - (a) Determine whether the financial statements need amendment; and, if so,
 - (b) Enquire how management intends to address the matter in the financial statements.
15. If management amends the financial statements, 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 statements together with the auditor's report thereon is informed of the situation.
 - (c) Unless the circumstances in paragraph 12 apply:
 - (i) Extend the audit procedures referred to in paragraphs 6 and 7 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 statements; and
 - (ii) Provide a new auditor's report on the amended financial statements.
 - (d) When the circumstances in paragraph 12 apply, amend the auditor's report or provide a new auditor's report as required by paragraph 12.
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 to the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and to the earlier report provided by the auditor.

17. If management does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements is informed of the situation and does not amend the financial statements 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 entity², 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-NZ A20.1)

Application and Other Explanatory Material

...

Facts Which Become Known to the Auditor after the Financial Statements Have Been Issued

Implications of Other Information Received after the Financial Statements Have 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 ISA (NZ) 720 (Revised). While the auditor has no obligation to perform any audit procedures regarding the financial statements after the financial statements have been issued, ISA (NZ) 720 (Revised) contains requirements and guidance with respect to other information obtained after the date of the auditor's report.

No Amendment of Financial Statements 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 amended financial statements by law or regulation. In such circumstances, the appropriate course of action for the auditor may be to report to the appropriate statutory body.³

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 financial statements 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.

NZ A20.1 Unless legal advice obtained recommends a different course of action, 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 statements;
- (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

² ISA 260, "Communication with Those Charged with Governance," paragraph 13.

³ This is unlikely to be the case in New Zealand.

take steps to provide appropriate disclosure.

- (c) If practicable, notifying each person known to the auditor to be relying on the financial statements that the auditor's report should no longer be relied upon.

D. Effective Date

The effective date for the final amendments is a matter for the NZAuASB to determine. However, it is anticipated that, given the limited nature of the amendments proposed, the amendments can go into effect almost immediately.