

AMENDMENT TO STANDARDS ISSUED BY THE NZAuASB: ISA(NZ) 560 SUBSEQUENT EVENTS

This Standard was issued on 27 February 2020 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 26 March 2020.

An auditor that is required to apply the amendment in this Standard is required to apply it for audits of financial statements for periods beginning on or after 15 July 2020. However, early adoption is permitted.

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued to clarify the auditor's responsibility to communicate matters that become known to the auditor after the date of the auditor's report.

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**Amendment to Standards Issued by the NZAuASB: ISA (NZ) 560
Subsequent Events**

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A: INTRODUCTION

This document sets out amendments to ISA (NZ) 560, *Subsequent Events*, to address concerns raised by the Financial Markets Authority 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 report.

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

The footnote numbers within these amendments do not align with the ISA (NZ) 560 and reference should be made to ISA (NZ) 560.

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

Requirements

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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 entity¹, those charged with governance that the auditor will seek to prevent future reliance on the auditor's report. If, despite such notification, management

¹ ISA 260, "Communication with Those Charged with Governance," paragraph 13.

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

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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.²

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 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.

² This is unlikely to be the case in New Zealand.

D. Effective Date

An auditor that is required to apply the amendment in this Standard is required to apply it for audits of financial statements for periods beginning on or after 15 July 2020. However, early adoption is permitted.