

BASIS FOR CONCLUSIONS CANADIAN AUDITING STANDARD (CAS) 560, Subsequent Events

September 2009

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, Canadian Auditing Standard 560, *Subsequent Events*.

Background

In December 2006, the International Auditing and Assurance Standards Board (IAASB) issued its Exposure Draft of International Standards on Auditing (ISA) 560 (Redrafted), *Subsequent Events* (ED-ISA 560). The IAASB approved final ISA 560 in December 2007 subject to confirmation by the Public Interest Oversight Board (PIOB) that due process was followed. This confirmation was received in April 2008.

In February 2007, the AASB issued its Exposure Draft to adopt proposed ISA 560 as CAS 560 (ED-CAS 560) to replace Sections 6550, SUBSEQUENT EVENTS, and 5405, DATE OF THE AUDITOR'S REPORT. There were 11 respondents to ED-CAS 560 (identified below).

The AASB approved CAS 560 in March 2008. The Auditing and Assurance Standards Oversight Council reviewed due process followed by the AASB in the development of this CAS prior to its issuance for inclusion in the CICA Handbook – Assurance.

Purpose of this Basis for Conclusions

This basis for conclusions has been prepared to make Canadian stakeholders aware of the following.

- (a) A Basis for Conclusions prepared by IAASB staff for ISA 560 is available on the IAASB web site, and provides information on how the IAASB dealt with comments received on significant matters in response to the ED-ISA 560.
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its ED-CAS 560 is also available. This information is set out below.

Significant Matters

AASB's Consideration of Amendments to ISA Wording

1. CAS 560 contains no amendment to the wording of ISA 560. This is consistent with the position taken by the AASB in ED-CAS 560.

Reference to International Accounting Standards

2. ISA 560 contains a reference to International Accounting Standard (IAS) 10, "Events after the Balance Sheet Date." ED-CAS 560 contained a proposed amendment to replace this reference with a reference to CICA Handbook – Accounting Section 3820, SUBSEQUENT EVENTS. Several respondents expressed the view that the proposed amendment might create confusion. One respondent felt that the proposed amendment was unnecessary as the reference provides only an example of a relevant accounting standard, and is not prescriptive. The AASB agreed with the views expressed by respondents and deleted this proposed amendment.

Date of the Auditor's Report

3. The auditor is required to perform subsequent events procedures covering the period from the date of the financial statements to the date of the auditor's report. CAS 700, *Forming an Opinion and Reporting on Financial Statements*, requires that the auditor's report be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on the financial statements. Sufficient appropriate audit evidence is defined to include evidence that the entity's complete set of financial statements has been prepared and that those with the recognized authority have asserted that they have taken responsibility for them. This means that the date of the auditor's report will be no earlier than the date of approval of the financial statements in final form by the directors or other similar body. This represents a significant change from existing Canadian generally accepted auditing standards (GAAS), under which the date of substantial completion of the auditor's examination is used as the date of the auditor's report.
4. Several respondents expressed concern that, given the requirement in CAS 700 for dating the auditor's report, the period to be covered by subsequent events procedures could, in many cases, be significantly longer than under existing GAAS. This may be the case, for example, for small and medium-sized enterprises that do not have formal governance processes and whose financial statements may be approved by directors long after the date of the financial statements. However, the AASB agreed with the IAASB that regardless of the size of the entity whose financial statements are being audited, the premise is sound that preparation of the financial statements concludes only when those with the

recognized authority have asserted that they have taken responsibility for the financial statements, that the audit cannot be completed before that date, and the auditor's report cannot be dated before the completion of the audit. This approach to dating the auditor's report has been successfully implemented in many jurisdictions for audits of both large and small entities, including those in the not-for-profit sector. There is no circumstance unique to Canada that would warrant an amendment of the wording from relevant ISAs in finalizing the related CASs. The AASB recognizes that that this will represent a significant change from current practice in Canada and, therefore, communications and non-authoritative guidance related to its implementation will be provided.

5. One respondent suggested that material in ISA 560 dealing with the need for persons with recognized authority to assert that they have taken responsibility for them seemed to be imposing a requirement on persons other than auditors. The respondent suggested that this material be amended in finalizing CAS 560 since the AASB can only set standards for auditors, not for those having authority for approving the financial statements. The AASB did not make the amendment suggested by the respondent. The AASB and the IAASB are aware that they can only set standards for auditors. The standards do not impose any requirements on management or those charged with governance. CAS 210, *Agreeing the Terms of Audit Engagements*, requires the auditor, before accepting an audit engagement, to obtain agreement from management and, where appropriate, those charged with governance that they acknowledge and understand their responsibilities for preparing and presenting the financial statements. The reporting standards require the auditor to appropriately amend the auditor's report if management and, where appropriate, those charged with governance, have not fulfilled their responsibilities.

Dual Dating of the Auditor's Report

6. Several respondents suggested that paragraph 11 be amended to specifically state that dual dating of the auditor's report is permitted and to supplement the material with illustrations of report wording in circumstances when dual dating is used. In finalizing ISA 560, the IAASB clarified the material dealing with dual dating by providing an illustrative example in paragraph A12.

References to Various Jurisdictions

7. One respondent requested that wording from ISA 560 referring to aspects of financial reporting frameworks applicable in various jurisdictions be amended to focus solely on matters relevant to audits performed in Canada. The AASB did not make the amendment requested. The CASs, like the ISAs, are designed to enable an auditor to report on financial statements prepared in accordance with any acceptable financial reporting framework anywhere in the world (when allowed by relevant laws and regulations) and are not meant to focus solely on matters pertaining to the Canadian financial reporting environment.

Level of Detail Regarding Subsequent Event Procedures

8. Two respondents expressed the view that procedures set out in ISA 560 are not sufficiently detailed and that certain procedures referred to in application material should be elevated to requirements. They suggested that the wording in ISA 560 be amended to be more prescriptive in finalizing CAS 560. In making this suggestion, one respondent expressed the view that certain procedures set out in non-italicized paragraphs in Section 6550 are, in fact, requirements. The AASB decided that no amendment should be made. It is important to note that in the existing standards, requirements are in italics. Material that is not italicized is not a requirement. The clarity format of the CASs should help eliminate any ambiguity in that regard. Also, the IAASB (and the AASB) gave careful consideration to which procedures should be mandated in standards. The ISAs and CASs are not meant to provide comprehensive audit programs. Paragraph 7 stipulates the minimum procedures required and application material provides explanatory notes and other procedures that might be performed. Further, there are no circumstances unique to the Canadian environment that would warrant an amendment of the material dealing with subsequent events procedures.

Other Matters

None.

List of Respondents to ED-CAS 560

Auditor General Alberta
BDO Dunwoody LLP
Browning Milgram LLP
Canadian Public Accountability Board
Deloitte & Touche LLP KPMG LLP
Institute of Chartered Accountants of British Columbia
Ordre des comptables agréés du Québec
Provincial Auditor Saskatchewan
Serge Huot The AC Group of Independent Accounting Firms Limited

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