



March 26, 2007

Mr. Jim Sylph
Technical Director
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Dear Mr. Sylph:

We appreciate this opportunity to comment on proposed International Standard on Auditing (ISA) 560 (Redrafted), *Subsequent Events* (the “proposed standard”) as developed by the International Auditing and Assurance Standards Board (IAASB). We are supportive of the development of this guidance and believe, overall, that the redrafting of the proposed standard was completed in accordance with the clarity conventions and criteria adopted by the IAASB.

Within our recommendations for editorial changes, additions are noted in “bold underline” and deletions in “double strike-through.”

Responses to Questions Posed in the Explanatory Memorandum

1. *Is the objective to be achieved by the auditor, stated in each of the proposed redrafted ISAs, appropriate?*

We believe that the objective, as stated, is appropriate.

2. *Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and the use of professional judgment by auditors?*

We believe that the criteria identified by the IAASB for determining whether a requirement should be specified have been applied appropriately and consistently.

3. *Do you agree with the changes described above as being necessary to the clarity of the redrafted ISA, including whether considerations in the audit of small entities and public sector entities have been dealt with appropriately? In particular, do you have any comments on the public sector issue requiring additional consideration described in the section on the considerations in the audits of small entities and public sector entities above?*

We agree with the incorporation of the guidance from IAPS 1005 into the proposed standard. However, we believe that paragraphs A6 and A7, which are derived from paragraphs 88 and 89 of IAPS 1005, do not necessarily relate just to smaller entities, but in fact, apply to non-listed entities, regardless of size. In addition, we believe that the second sentence of paragraph A6 has been re-drafted incorrectly, and have included a suggested change below.

We recommend that the IAASB consider removing the heading above these two paragraphs that reads *Considerations Specific to Smaller Entities* and broadening the language in the two paragraphs to frame the guidance in the context of non-listed entities.

For example, the first two sentences of paragraph A6 could read:

“It is often the case that more time elapses between the date of the financial statements and the approval of the financial statements by the owner-manager in the case of ~~small~~ **non-listed** entities than in the case of ~~large~~ **listed** entities. The period to be covered by the auditor’s subsequent events procedures may therefore often be longer ~~than that~~ in the audit of a ~~small~~ **non-listed** entity, which allows more opportunity for the occurrence of subsequent events that can affect the financial statements.”

4. *Do you agree with the IAASB’s proposed treatment of the issue in relation to the application of the proposed redrafted ISA 560 to securities offering documents as noted above?*

We agree with the inclusion of paragraph A1 which relates to the proposed standard’s application to securities offerings documents.

5. *Do you agree with the IAASB’s treatment of the restriction of subsequent events procedures and dual dating of the auditor’s report for amended financial statements?*

We agree with the IAASB’s treatment of the restriction of subsequent events procedures and dual dating of the auditor’s report for amended financial statements.

Comments by Paragraph

- **Paragraph 5(e)**

“Subsequent events” as defined in the proposed standard includes the language “facts that become known to the auditor”. We noted that the wording in the requirement in paragraph 8 is based on the auditor *identifying events* that materially affect the financial statements.

We recommend that the requirements in the proposed standard use consistent terminology with the language in the definition. Framing the requirement in terms of the auditor identifying events may infer that the auditor has a responsibility, beyond the procedures detailed in paragraph 7, to proactively look for subsequent events, whereas “facts which become known” indicates that when the auditor is made aware of facts, the auditor reacts to those facts. We suggest that paragraph 8 be changed as follows:

“When **facts become known to** the auditor ~~identifies~~ **about** events that materially affect the financial statements, the auditor shall determine whether such events are properly accounted for and adequately disclosed in the financial statements.”

- **Paragraph 6**

We note that the last sentence of this paragraph was revised during its clarity redrafting. We are concerned that the sentence could be interpreted to mean that the auditor has a responsibility to perform procedures on certain matters to which previously applied audit procedures have provided satisfactory conclusions.

In addition, we suggest a change in the first sentence to clarify the nature of the requirement. Therefore, we recommend the following changes to paragraph 6:

“The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all **material** events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements have been identified. The auditor is not, however, expected to perform additional audit procedures on ~~all~~ matters to which previously applied audit procedures have provided satisfactory conclusions.”

- **Paragraph 7**

We agree with the split of extant paragraph 6 into requirements and application material (located in paragraphs A4 and A5). However, we believe that some additional guidance in the proposed standard is appropriate in the following areas:

- We suggest that the proposed standard indicate that, by performing the requirements included in paragraphs 7(a) through 7(d), and provided no issues are identified, the auditor will have obtained sufficient appropriate audit evidence related to subsequent events.
- The proposed standard should include guidance for circumstances where a material event is discovered through the auditor’s performance of the procedures in paragraphs 7(a) through 7(d).

- **Paragraph 7(c)**

We noted that in redrafting the third bullet of paragraph 6 in the extant ISA, the IAASB has changed the wording from “Reading the entity’s latest available interim financial statements...” to “Reading the entity’s latest available interim external financial statements and interim internal management financial statements.”

We suggest that the proposed standard use the wording in the extant standard, as it is clearer.

- **Paragraph 9**

Similar to our comment on paragraph 5(e) above, we suggest the following change for consistency throughout the proposed standard:

“However, when, after the date of the auditor’s report but before the date the financial statements are issued, ~~the auditor becomes aware of a fact~~ which may materially affect the financial statements **become known to the auditor**, the auditor shall...”

- **Paragraph 10**

We are unsure what is meant by “the procedures necessary in the circumstances” in the first sentence of paragraph 10, and suggest the following changes:

“When management amends the financial statements, the auditor shall carry out the procedures necessary **to obtain sufficient appropriate audit evidence supporting the changes to the financial statements in the circumstances** and shall issue a new auditor’s report on the amended financial statements. **The procedures undertaken by the auditor may vary depending on the circumstances.**”

- **Paragraph 13**

Similar to our comment on paragraph 5(e) above, we suggest the following change for consistency throughout the proposed standard:

“However, if after the financial statements have been issued, ~~the auditor becomes aware of a fact~~ **of a fact** that existed at the date of the auditor’s report **become known to the auditor** that, if known at that date, may have caused the financial statements to be amended...”

- **Paragraph 13 (c)**

We believe that, as written, paragraph 13(c) could be interpreted to mean that the auditor holds some responsibility for the financial statements, by requiring the auditor to determine whether management will amend the financial statements. We suggest the following change to clarify the meaning of the requirement:

“(c) ~~Determine~~ **Ascertain** whether management will amend the financial statements.”

- **Paragraph 14 (a)**

We are unsure of the meaning of “necessary in the circumstances” and recommend that the IAASB consider adding application material for this requirement.

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact Jens Simonsen, Director of Global Audit Services at + 1 212 492 3689 or John Fogarty, Chairman – DTT Assurance Technical Policies and Methodologies Group at + 1 203 761 3227.

Very truly yours,

