



ISA 560 SUBSEQUENT EVENTS

Proposed redrafted International Standard on Auditing issued for comment by the International Auditing and Assurance Standards Board of the International Federation of Accountants

Comments from ACCA
April 2007



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Executive Summary

ACCA welcomes the opportunity to comment on the proposed International Standard on Auditing ISA 560 (Redrafted) *Subsequent Events* (proposed ISA 560), issued for comment by the International Auditing and Assurance Standards Board of the International Federation of Accountants.

Our comments below provide views on certain issues highlighted in the Explanatory Memorandum forming part of the exposure draft and the changes proposed in applying the Clarity project drafting conventions to extant ISA 560.

We agree with the proposed objective and that proposed ISA 560 should not apply to securities offering documents.

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

We suggest some improvements in the way proposed ISA 560 deals with circumstances relevant to the audit of smaller entities and challenge certain proposed new requirements, which in our view do not meet the Clarity project criteria for 'elevation' from guidance.

Application of the Requirements of ISA 560 to Securities Offering Documents

In relation to securities offerings documents, the Explanatory Memorandum explains that: *'the basic principle or essential procedure in the first sentence of paragraph 20 of the extant ISA 560, together with its accompanying guidance, has been redrafted and included in the application material of proposed redrafted ISA 560.'*

As the responsibilities of auditors and reporting accountants in engagements relating to securities offerings vary as determined by national laws and regulations, we agree with the analysis in the Explanatory Memorandum that there should be no related requirement in proposed ISA 560.

We further suggest that it would be better to remove the references to securities offering documents from the section for Application and Other Explanatory Material (A&OEM).¹

¹ We have also commented to this effect in our separate response on proposed ISA 720 (Redrafted) *Other Information in Documents Containing Audited Financial Statements*.

Restriction of Subsequent Events Procedures and Dual Dating of the Auditor's Report for Amended Financial Statements

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

We have some reservations on the detailed wording, however, as set out later in this response under the heading 'Requirements'.

Special Considerations in the Audit of Small Entities

INAPPROPRIATE POSITIONING

The introduction of some of the material previously in IAPS 1005 is welcome but the unwarranted elevation of requirements in paragraph 7 taken together with the guidance in paragraph A7 creates a conditional requirement that is not appropriate within the drafting conventions of the Clarity project.

Paragraph A7 is drawn from paragraph 89 of IAPS 1005. That paragraph provided guidance in the context of the general requirement now in paragraph 6, not in the context of the newly elevated specific requirements in paragraph 7.

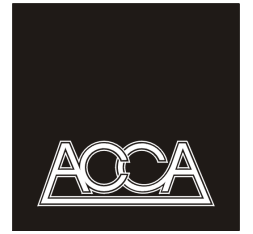
We recommend rewording paragraph A7 to make it clear that it does not relate to paragraph 7. In the part of this response headed 'Requirements', we recommend removing paragraph 7.

UNEXPLAINED OMISSION

We note that paragraphs 92 and 93 of IAPS 1005 have not been included in proposed ISA 560 or mentioned in the Explanatory Memorandum. These deal with subsequent events between the date of the auditor's report and the financial statements being issued.

Paragraph 93 restates the general requirement and can be omitted. Paragraph 92 might usefully be included, however, (between paragraphs A8 and A9) as it guides auditors in the common circumstances where the date of the auditor's report is, in effect, the same as that of issue of the financial statements.

As an alternative approach, we recommend introducing a condition precedent to the requirements in paragraphs 9 to 12.



Objective

We consider that the objective is appropriate.

Requirements

There is considerable proposed elevation of guidance material to requirements to give effect to the proposed treatment of the restriction of subsequent events procedures and dual dating of the auditor's report for amended financial statements. This makes it even more important that explanatory wording be excluded from the Requirements section so that requirements are clear.

Paragraph 6

In paragraph 6, the sentence, *'The auditor is not, however, expected to perform additional audit procedures on all matters to which previously applied audit procedures have provided satisfactory conclusions.'* is not a requirement and should be transferred to the A&OEM section.

Paragraph 7

Paragraph 7 contains requirements that will not be appropriate for the majority of audits, as recognised by the explanatory material in paragraph A7. As the whole paragraph is only providing further detail on the requirement stated in paragraph 6 we believe that it should be transferred to the A&OEM section and rewritten in combination with paragraph A7.

Paragraph 9

In paragraph 9, the sentence, *'The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report.'* is not a requirement and should be transferred to the A&OEM section.

Paragraph 11

The first part of paragraph 11 is written as a permission. This is not consistent with the Clarity drafting conventions. The paragraph should contain a requirement with a condition precedent. Any other necessary material should be presented in the A&OEM section.

Paragraph 12

The last bullet point of paragraph 12 contains an implicit requirement to consult the auditor's legal counsel. In many circumstances there will be no need for legal advice and under the drafting conventions of the Clarity project this should not be a requirement. The wording of the paragraph also implies that if the auditor fails to prevent reliance then there is a departure from the requirement. Any requirement should only be to seek to prevent reliance as it is not within the auditor's power to ensure that reliance is prevented.

Where a requirement refers to informing those charged with governance, appropriate reference should be made to the circumstance where all those involved in management are also charged with governance.

Paragraph 13

In paragraph 13, the sentence, *'After the financial statements have been issued, the auditor has no obligation to perform any audit procedures regarding such financial statements.'* is not a requirement and should be transferred to the A&OEM section.

Paragraph 17

The last sentence of paragraph 17 contains an implicit requirement to consult the auditor's legal counsel. In many circumstances there will be no need for legal advice and under the drafting conventions of the Clarity project this should not be a requirement. The wording of the paragraph also implies that if the auditor fails to prevent reliance then there is a departure from the requirement. Any requirement should only be to seek to prevent reliance as it is not within the auditor's power to ensure that reliance is prevented.

Where a requirement refers to informing those charged with governance, appropriate reference should be made to the circumstance where all those involved in management are also charged with governance.

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