



OICV - IOSCO

Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valore

June 26, 2007

Mr. James M. Sylph
Executive Director, Professional Standards
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Email address: Edcomments@ifac.org

Re: Proposed Redrafted International Standard on Auditing 560, *Subsequent Events*

Dear Mr. Sylph:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (SC 1) appreciates the opportunity to comment on the Exposure Draft of proposed redrafted international standard on auditing ISA 560, *Subsequent Events* (the ED). As an international organization of securities regulators representing the public interest, IOSCO SC 1 is committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing, and professional standards.

Members of SC 1 seek to further IOSCO's mission through thoughtful consideration of accounting, auditing and disclosure concerns, and pursuit of improved global financial reporting. As we review proposed auditing standards, our concerns focus on whether the standards are sufficient in scope and adequately cover all relevant aspects of the area of audit being addressed, whether the standards are clear and understandable, and whether the standards are written in such a way as to be enforceable.

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Our comments in this letter reflect those matters on which we have achieved a consensus among the members of SC 1; however, they are not intended to include all comments that might be provided by individual members on behalf of their respective jurisdictions.

In general, we welcome the changes that have been made in clarifying and redrafting ISA 560; however, we have the following few comments on additional improvements needed.

Objectives - Paragraph 4

In ISA 560, the proposed objectives to be achieved by the auditor are stated as "The objectives of the auditor are to (a) Obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that materially affect the financial statements are appropriately reflected in those financial statements, and (b) Respond appropriately to facts that become known to the auditor after the date of the auditor's report that materially affect those financial statements. We believe this objective addresses the right issues. However, we believe the objective would be stronger if the first sentence (4a) were restated as "Obtain sufficient appropriate audit evidence about whether *transactions and events have occurred (italics ours for emphasis)* between the date of the financial statements and the date of the auditor's report that materially affect the financial statements are appropriately reflected in the financial statements, and..."

Requirements

Events Occurring Between the Date of the Financial Statements and the Date of the Auditor's Report - Paragraphs 6 and 7(c)

These paragraphs state that "the auditor shall perform audit procedures to obtain sufficient appropriate audit evidence that all 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" and that such procedures shall include the following (paragraph 7c) "reading the entity's latest interim external financial statements and interim internal management financial statements".

We are unsure why no mention is made of the work that would routinely be done by the auditor as a follow-up to identify subsequent events, i.e. examining any books and records and journal entries for the period following the date of the financial statements. Such work is important to see what reversals might be made of year-end closing journal entries, whether accounts were collected as expected, etc. To mention only the reading of the next set of interim financial statements seems incomplete and inadequate to identify subsequent events, as some entities around the world do not prepare interim statements before the audit would be finished and the summary nature of a set of interim financial statements would not provide the sharpest picture of what has occurred.

We also question the stating of the requirement as the auditor shall just "read" the entity's latest available interim external financial management financial statements. We believe it

is more appropriate for the auditor to “read and compare” this information to the financial statements for the period under audit.

Thank you for the opportunity to comment on this ED. If you have any questions or need additional information regarding this comment letter, you may contact me or Susan Koski-Grafer at 202-551-5300, or any member of the IOSCO Standing Committee No. 1 Auditing Subcommittee.

Sincerely,

A handwritten signature in black ink that reads "Julie A. Erhardt". The signature is written in a cursive style with a large initial 'J' and a stylized 'A'.

Julie A. Erhardt
Chair
IOSCO Standing Committee No. 1

Appendix A

Responses to Specific Questions in the Exposure Draft

- 1. Is the objective to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?**

Please see our comment earlier in this letter.

- 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?**

Our focus in reviewing this Exposure Draft was on how well we believe the resulting standard will support the public interest by contributing to high quality audits, rather than on the Board's methodology for redrafting the standard and determining requirements. In this regard, please see our comments in the main body of this letter. We have identified one instance where we believe something important is missing from a requirement (paragraph 7c).

- 3. Do you agree with the changes described above being necessary to the clarity of redrafted ISA, including whether considerations in the audit of small 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?**

As an international organization of securities regulators, our concern is that smaller publicly listed companies which are excluded from the categories of small and public sector entities will try to use the guidance for small and public sector entities. We believe it needs to be made clearer that listed entities cannot use the special considerations set forth for small entities.

- 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?**

Given the widespread application of ISAs to multiple international jurisdictions, we, as an international organization of securities regulators, can understand the IAASB concern that it can be very difficult and challenging for an auditor to consider requirements in all jurisdictions in which an issuer's securities are being or will be offered after the date of the financial statements and the auditor's report. If the stated reference to auditor's responsibilities in relation to securities offering documents is removed from the Requirement section because the IAASB plans to do a separate project on this issue, we

would not object provided that this project will be given a high priority. We agree that moving the statement to the Application Guidance section is desirable to keep an awareness of the issue somewhere in the ISA.

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

Yes, we agree with the treatment of restriction of subsequent events procedures and dual dating of the auditors report for amended financial statements as proposed in the ED.