



International Federation of Accountants

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Agenda Item

10

Committee: IAASB

Meeting Location: London

Meeting Date: December 4-8, 2006

ISA 560 (Redrafted), “Subsequent Events”

Objectives of Agenda Item

1. To approve as an Exposure Draft the proposed ISA 560 (Redrafted), “Subsequent Events” based on the clarity drafting conventions adopted by the IAASB.

ISA 560 Redrafting Task Force Members

2. The members of the Task Force are:

Jan Bo Hanson (Chair) IAASB member

Diana Hillier IAASB member

3. The redrafting support was undertaken by the Institut der Wirtschaftsprüfer (IDW), and in particular by Wolf Böhm (IAASB Technical Advisor) and Gillian Waldbauer (IDW Technical Manager).

Activities of the Redrafting Task Force

4. The IDW provided the Redrafting Task Force with preliminary drafts of the documents needed for clarification. These drafts were also made available in parallel to the Clarity Task Force and IFAC staff. In a telephone conference, the Redrafting Task Force considered the comments of the Clarity Task Force and IFAC staff and also provided additional comments to the IDW. The IDW incorporated the amendments desired by the Redrafting Task Force into the clarification documents. The Redrafting Task Force reviewed these documents and by means of a conference call provided additional direction to the IDW on the drafting of the documents. The documents in this Agenda Item reflect these final directions from the Redrafting Task Force.

Matters for IAASB Consideration

IMPORTANT ISSUES

5. The Task Force has included conditional requirements (paragraphs 10, 11.2,¹ 11.3, 13, and 16 in Agenda Item 10-A). The Task Force believes this is appropriate to ensure that

¹ To be read as “paragraph 11, second sentence.”

- auditors, when confronted with certain circumstances, act appropriately, or at least in a consistent manner, even when the circumstances do not apply in virtually all audits.
6. Existing text that limits the auditor's responsibilities has been placed within the appropriate part of the requirements section (paragraphs 6.2, 9.1, 12.1 and 17). These are essentially "negative requirements" that limit the auditor's responsibilities. This will be particularly important for those countries in which the requirements of the ISAs are likely to become statutory instruments.
 7. Extant paragraph 6 has been split between requirements (paragraph 7) and application guidance (paragraphs A4 and A5), because the Task Force believes that some of the procedures are always required, when they are relevant, whereas others may not be required in every case.
 8. Extant paragraph 18.1 requires the auditor to "notify those persons ultimately responsible for the overall direction of the entity that action will be taken by the auditor to prevent future reliance on the auditor's report". However, in the event that the financial statements are not amended and those charged with governance do not rectify the situation, the auditor also needs to take such action, analogously to the requirement of extant paragraph 13.2. Accordingly, a new conditional requirement has been added in the last sentence of paragraph 16.
 9. The wording of extant paragraph 20, which is currently a black-lettered requirement, has caused some concerns amongst practitioners as being unrealistic, because it would be difficult for the auditor to consider **any** legal and related requirements applicable to the auditor in **all** jurisdictions in which the securities are being offered. This information has been treated as an example rather than a requirement, so it has been placed within paragraph A1 of the application material, but referenced to paragraph 1 "Scope of this ISA." Accordingly, the wording has been amended to the effect that the auditor may need to consider other requirements.

FURTHER SUBSTANTIVE ISSUES BEYOND MERE CLARIFICATION

10. The definition of subsequent events in paragraph 5(e) includes "facts which become known to the auditor after the date of the auditor's report" because only information of which the auditor becomes aware after the date of the auditor's report is within the scope of this ISA, although events may, of course, occur and information may exist, which do not become known to the auditor after the date of the auditor's report. Although the definition is technically inaccurate, the Task Force has chosen not to amend it, because it has not caused problems in practice.
11. Paragraph IAPS 1005.90 states "The auditor may, depending on the circumstances, consider whether the letter of representation also cover particular subsequent events." This guidance does not relate solely to SME audits. Therefore, this paragraph has been placed within the application material in paragraph A6 so that it applies to all entities and has been amended to reflect the direction of the current drafts of the Written Representations Task Force.

Potential conforming amendments

12. Extant paragraph 9.2 “During the period from the date of the auditor’s report to the date the financial statements are issued, the responsibility to inform the auditor of facts which may affect the financial statements rests with management.” has been placed in paragraph A9 of the application material so as to not impose an obligation on management through the ISAs. There may be a case for a conforming amendment to ISA 210 that addresses such a consideration.
13. The requirement in paragraph 14, which already exists in the ISA prior to clarification in extant paragraph 17.1, goes beyond the emphasis of matter paragraphs required by ISA 706. The ISA 706 Task Force may need to consider whether this requirement ought to lead to a conforming amendment in ISA 706.
14. Paragraph 15 retains the provisions in extant paragraph 17.3 and .4 “Local regulations of some countries permit the auditor to restrict the audit procedures regarding the revised financial statements to the effects of the subsequent event that necessitated the revision. In such cases, the new auditor’s report would contain a statement to that effect.” The Task Force does not consider any change to the wording necessary, because dual dating is permitted by auditing standards and is common practice in certain jurisdictions for disclosures or adjustments. If these provisions are retained, the ISA 706 task force may need to consider whether a conforming change is required to ISA 706.

FURTHER ISSUES IN RELATION TO CLARIFICATION

15. Paragraph 2 includes new text and includes existing text that has been moved to the introductory section. This introductory text explains the context of this ISA in the same way that such text explains the context of ISA 240 (Redrafted), “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements” and ISA 550 (Revised and Redrafted) “Related Parties.”
16. The objective suggested in the IAASB agenda papers for September 2006 “The objective of the auditor is to obtain sufficient appropriate audit evidence about whether events up to the date of the auditor’s report that may require adjustment of, or disclosure in, the financial statements have been identified and properly reflected in the financial statements.” has been amended. The Task Force believes that the suggested wording is more precise because it is more closely aligned to the requirements.
17. The detailed examples within the definition of “Date of approval of the financial statements” in extant paragraph 4(b) have been moved to paragraph A2 in the application material, because they are not really part of the definition.
18. Definition (c) in extant paragraph 4 “Date of the auditor’s report” is addressed in ISA 700 (Revised) “The Independent Auditor’s Report on General Purpose Financial Statements.” However, for this standard it is of such relevance that it has been retained in paragraph 5 (c) of the definitions section.
19. In paragraph 8 the wording “when the auditor becomes aware of” has been changed to “when the auditor identifies” as the auditor is required to actively seek to identify such

events, rather than passively await information. This is consistent with the preceding requirement of paragraph 6 in which reference is made to identification of events.

EDITORIAL MATTERS

20. In extant paragraph 6.1b5.2,² the wording of the third last example of inquiries of management “Whether there have been any developments regarding risk areas and contingencies” has been amended in paragraph A5, as it is not clear what is intended by “risk areas”. On the assumption that inquiries concerning contingencies will automatically encompass all risk areas the term “risk areas” has been deleted, as its retention would appear to serve no additional purpose.
21. The wording is not consistent in the opening scope paragraphs of redrafted ISAs 240, 560, and 540 (i.e., applying the terms “in relation to”, “relating to” or “regarding”). In addition, there may be some merit in considering the application of “when” and “if”. (Refer to paragraphs 10 et seq.)

Action Requested

The IAASB is asked to consider each of the issues raised by the Redrafting Task Force.

Material Presented (Note: Agenda Items 10-A, 10-B, 10-E and 10-F will be used for the purposes of the discussion at the meeting.)

Agenda Item 10-A (Pages 3237 – 3244)	Proposed ISA 560 (Redrafted) – For Approval
Agenda Item 10-B (Pages 3245 – 3254)	Proposed ISA 560 (Redrafted) Mapped Document – marked up (showing changes from original mapping)
Agenda Item 10-C (Pages 3255 – 3260)	Proposed ISA 560 (Redrafted) – Mapped Document (prior to changes from original mapping)
Agenda Item 10-D (Pages 3261 – 3272)	Proposed ISA 560 (Redrafted) – Mapping Document
Agenda Item 10-E (Pages 3273 – 3278)	Proposed ISA 560 (Redrafted) – Proposed Disposition of the Present Tense and Other Statements
Agenda Item 10-F (Pages 3279 – 3284)	Addendum to Agenda Item 10 - Proposed ISA 560 Public Sector Considerations

Action Requested

22. The IAASB is asked to approve Proposed ISA 560 (Redrafted) in Agenda Item 10-A, for issuance as an Exposure Draft, subject to the Redrafting Task Force making such changes as may be required to reflect guidance from the IAASB, particularly in response to the questions raised above.

² To be read as “extant ISA 560, paragraph 6, first sentence, fifth bullet, second sentence.”