

29 March 2007

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Dear Mr Sylph

Proposed Redrafted International Standard on Auditing 560 – Subsequent Events

Dear Mr Sylph

The Committee of European Banking Supervisors welcomes the opportunity to comment on the *Proposed Redrafted International Standard on Auditing 560 – Subsequent Events (ISA 560)*.

Through their opinions on annual accounts and annual reports, external auditors constitute an integral part of the public oversight model and contribute to the financial stability of the market. As banking supervisors we therefore have an interest in ensuring that auditing standards, which are the basis for audit work, are of a high quality and are clear and capable of consistent application.

In general we welcome the clarity with which the ISA is written and we only have a few comments about the objective, requirements and application material. These are noted in the attached appendix 1, which covers our response to your questions for commentators. However, we do note there are a few aspects of the ISA where we believe additional revisions may be necessary. These suggested revisions are noted in appendix 2.

In summary, we suggest a modification of the objective and some changes to the requirements which from our point of view will enhance the clarity of proposed ISA 560 and its conformity with the board's drafting conventions.

Our comments were coordinated by our Expert Group on Financial Information (EGFI), and especially by its Subgroup on Auditing, which is under the direction of Pat Sucher from the FSA, UK.

If you have any questions regarding our comments, please feel free to contact the chairman of EGFI, Arnoud Vossen (+31.20.524.3903) or Miss Pat Sucher (+44.20.7066.5644).

Yours sincerely



Daniele Nouy
Chair

Comments on ISA 560 – Subsequent Events (ISA 560)

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

We are unclear if the objective is sufficiently outcome-oriented and follows the IAASB's suggested format for objectives as laid out in the Basis for Conclusions, December 2006. The goal of the processes identified in the various requirements should be expressed more clearly, that is to ensure that all material subsequent adjusting events are properly reflected in the financial statements. Furthermore, the need to obtain sufficient audit evidence that all subsequent events have been identified (as a precondition for their recognition in the financial statements and as stated in paragraph 6 of the draft ISA) should also be included in paragraph 4 (a) of the objective.

We would suggest that the objective could be restated as follows:

"The objectives of the auditor are to:

(a) Determine whether all material subsequent events occurring between the date of the financial statements and the date of the auditor's report are identified and appropriately reflected in the financial statements; and

(b) Respond appropriately to facts materially affecting the financial statements that become known to the auditor after the date of the auditor's report"

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 judgement by auditors?

Introduction

Paragraph 1 cross refers to application material A1. As a matter of clarity we are of the opinion that at least the introduction and the objective of ISAs should stand alone with no need for cross references to the application material. The cross-reference to paragraph A1 could, instead, be noted against paragraph 6.

Definitions

The footnote contained in paragraph 5 (c) of the definitions section should be deleted. It expressly refers to rare circumstances resulting from national laws or regulations. As a general principle ISAs should not deal with rare circumstances or exceptions. If there is a real need to do so – maybe because some particular rules or circumstances are not so uncommon after all – the resulting considerations should be presented in the application material to the relevant requirement, instead of a footnote.

Requirements

For reasons of clarity, the second sentence of paragraph 7 should contain another "shall": "Such audit procedures *shall* take into account the auditor's risk assessment and shall include the following..."

We believe the wording of paragraph 11 should be simplified, as it would cause difficulties in translation to other languages. The "shall"-requirement should be moved out of the latter part of the paragraph and to its beginning. Only then can it be easily recognised as a requirement.

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?

No comment.

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?

No comment.

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?

No comment.

Other proposed revisions

Introduction

Paragraph 2 of the introduction directly refers to IAS 10. Since the ISAs should be independent from the applied financial reporting standards (i. e. framework-neutral) such a mentioning of a specific standard should be avoided or at least be confined to the application material. The resulting deletion of the third sentence of paragraph 2 will in no way alter its content since it is already stated there that many reporting frameworks specifically refer to subsequent events.

Paragraph 2 differentiates between two types of subsequent events: Adjusting events (a) and non-adjusting events (b). While it is helpful to have this distinction in the introduction, we think it should be added, that ISA 560 is applicable only for the so-called adjusting events. Though this remark may seem obvious it will clearly contribute to enhanced clarity.

Requirements

The requirement in paragraph 8 does not specify what should happen if the subsequent events are not properly accounted for and not adequately disclosed in the financial statements. In contrast to this, paragraph 12 gives detailed descriptions of the actions demanded from the auditor in another case. It would seem reasonable to have something comparable in paragraph 8, that is for a reference to ISA 701 "Modifications to the Independent Auditor's Report" which describes the alternatives of a qualified opinion or an adverse opinion.