

March 31, 2007

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

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

Dear Mr. Sylph:

The American Institute of Certified Public Accountants (AICPA) is pleased to have the opportunity to comment on the above-referenced exposure draft (the “ED”). We commend the International Auditing and Assurance Standards Board (IAASB) on the issuance of the ED. We believe that, for the most part, the ED clarifies the auditor’s responsibilities with respect to subsequent events and we support its issuance.

Below are our responses to the questions outlined in the Guide for Respondents on page 7 of the ED:

- 1) We believe that the objective to be achieved by the auditor, as stated in the ED is incomplete, as it does not include identification of events occurring between the date of the financial statements and the date of the auditor’s report that may require adjustment to or disclosure in the financial statements. We recommend that the objective be revised as follows (new language in boldface italics:

The objectives of the auditor are to:

- (a) ***Identify events occurring between the date of the financial statements and the date of the auditor’s report that may require adjustment to or disclosure in the financial statements,***
- (b) 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 the financial statements.

- 2) We believe that generally, the criteria identified by the IAASB for determining whether a requirement should be specified have been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and the use of professional judgment by auditors. We do, however, have certain comments with respect to the requirements:

A. **Paragraph 12.** The first bullet states “the auditor shall modify the opinion appropriately so that the auditor expresses a qualified opinion or an adverse opinion”. Paragraph 11 of the extant ISA 560 states that the “auditor shall express a qualified opinion or an adverse opinion.” We believe that the wording in the extant ISA 560 is clearer. In addition, we believe that the words “and then issue the auditor’s report” at the end of the bullet are unnecessary and should be deleted.

B. **Paragraph 13.** The first sentence of paragraph 13 is inconsistent with the paragraphs 6 and 9. The first sentence of paragraph 6 reads “The auditor shall perform audit procedures designed 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.” The first sentence of paragraph 9 reads “The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor’s report.” While we do not disagree that the auditor has no obligation to perform audit procedures after the financial statements have been issued, we believe that there may be some confusion since, as correctly stated in paragraphs 6 and 9, the auditor’s responsibility ceases at the report date, not the date the financial statements are issued. We recommend the deletion of the first sentence of paragraph 13. In addition, the requirement as stated in paragraph 13 runs to whether the financial statements would be amended or the auditor’s report would be modified. As with the previous comment on paragraph 9, the determination as to whether the financial statements should be amended is the responsibility of the entity’s management. Therefore, we recommend that paragraph 13 be revised as follows (new language in boldface italics, deleted language in strikethrough):

~~After the financial statements have been issued, the auditor has no obligation to perform any audit procedures regarding such financial statements. However, if~~ **After** the financial statements have been issued, the auditor **may** become aware of a fact **that existed at the balance sheet date** that, **if known prior to issuing the report**, ~~existed at the date of the auditor’s report and that, if known at that date,~~ may have caused the financial statements to be amended or the auditor to **consider a modification of the** ~~modify the auditor’s report~~ **if the financial statements were not amended. In this situation**, the auditor shall:

- (a) Discuss the matter with management,
- (b) **Take action appropriate in the circumstances.** ~~Determine whether the financial statements need amendment, and, if so,~~

~~(c) Determine whether management will amend the financial statements.~~

The changes would result in the requirement being consistent with the requirements in paragraph 9 (if revised as previously stated) and paragraph 12 (i.e. that management decides and the auditor evaluates management's decision and reacts accordingly).

*Special Considerations in the Audit of Small Entities and Public Sector Entities*

- 3) We do agree that the guidance specific to "smaller entities" and "public sector entities" in the ED is necessary to the clarity of the redrafted ISA. However, we believe that the second sentence in A6 should be revised to read "The period covered by the auditor's subsequent events procedures may therefore often be longer ~~than that~~ in the audit of the small entity, which allows more opportunity for the occurrence of subsequent events that can affect the financial statements."

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

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

Additionally, we offer the following specific comments:

- 1) **Paragraph 5 (Definitions).** We recommend that the definition of "date of the financial statements" be shortened to simply state "The date of the end of the latest period covered by the financial statement(s)."
- 2) **Paragraph 7(c).** The language refers to "latest available interim external financial statements and interim internal management financial statements". This language may cause confusion among readers. We suggest simply referring to "the latest interim financial statements". This would subsume external and internal financial statements.
- 3) **Paragraph A10.** Extant ISA 560 (paragraph 19) states that "it may not be necessary to revise the financial statements and issue a new auditor's report when issue of the financial statements for the following period is imminent, provided appropriate disclosures are made in such statements." Paragraph A10 introduces the concept but, links it to laws, regulations, or the financial reporting framework. We believe that the guidance should not be dependent on laws, regulations, or the financial reporting framework and therefore the language should revert to that in paragraph 19 of the extant ISA 560.

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Thank you for the opportunity to comment on this Exposure Draft. If you have any questions regarding the comments in this letter, please contact Michael Glynn at +1 212 596 6250, [mglynn@aicpa.org](mailto:mglynn@aicpa.org) or Sharon Walker at +1 212 596 6026, [swalker@aicpa.org](mailto:swalker@aicpa.org).

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Respectfully submitted,

/s/ Harold Monk, Jr.  
Chair, AICPA Auditing Standards Board