



International Federation of Accountants

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Agenda Item E

Committee: IAASB Consultative Advisory Group

Meeting Location: Toronto

Meeting Date: September 11-12, 2006

Revision of ISA 580, “Written Representations”

Objectives of Agenda Item

1. The objective of this agenda item is:
 - (a) To report the Task Force’s responses and recommendations in relation to significant comments received from Representatives at the May IAASB CAG meeting on the first read draft of proposed ISA 580, “Written Representations.”
 - (b) To report on the discussion of related issues at the July IAASB meeting.
 - (c) To obtain the Representatives’ views on the Task Force’s responses and recommendations.
2. **Agenda Items E.1 and E.2, which are provided as an IAASB CAG Reference Paper, was prepared for this IAASB CAG meeting and has not yet been reviewed / submitted for review by the IAASB.** Agenda Item E.1 shows in mark-up the changes processed to the proposed ISA reviewed at the May 11-12, 2006 IAASB CAG meeting. The changes reflect the Task Force’s responses and recommendations in relation to the comments received from Representatives and IAASB members.

Significant Issues

3. At the May 2006 IAASB CAG meeting, Representatives raised various issues in relation to the proposed ISA. The Task Force considered these issues and presented its proposed dispositions and recommendations to the IAASB in July, and further amended them as a result of the IAASB’s comments.
4. The IAASB broadly agreed with the direction taken by the Task Force. Several IAASB members expressed concerns similar to those raised by the Representatives as discussed below, particularly in relation to the implications of the “failure” to obtain general representations. The Task Force is of the view that the IAASB members’ concerns have also been addressed.
5. The issues raised by the Representatives in May were categorized as follows:
 - Appropriateness of effectively “establishing” management’s responsibilities in an auditing standard.
 - Effect of obtaining of written representations on the auditor’s responsibility to obtain sufficient appropriate audit evidence.

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- The meaning of “failure” to obtain general written representations.
 - The meaning of “materiality” in relation to written representations.
6. The Task Force addressed the issues by:
- Emphasizing that an audit of financial statements is based upon certain assumptions about management activities and beliefs. If these assumptions are not correct then there is no basis for performing an audit. The purpose of obtain representations and the audit evidence gathered is to confirm the appropriateness of these assumptions. **(Refer Agenda Item E.1, paragraphs 6 and A3)**
 - Clarifying that the assumptions necessary for performing an audit of financial statements can be categorized as follows:
 - Those relating to internal control.
 - Those relating to the preparing and presenting the financial statements.
 - Those relating to the completeness of information provided to the auditor. **(Refer Agenda Item E.1, paragraphs 6 and A3)**
 - Clarifying that even though the auditor obtains evidence of the appropriateness of the assumptions throughout the audit, general representations are necessary to obtain sufficient audit evidence in relation to such appropriateness. In this context the word “sufficient” means to complete the audit evidence rather than that such representations are sufficient. **(Refer Agenda Item E.1, paragraph A3)**
 - Clarifying that relevant persons may acknowledge the assumptions in the terms of engagement; however, general written representations are necessary to obtain sufficient evidence in relation to the appropriateness of the assumptions. **(Refer Agenda Item E.1, paragraphs A4)**
 - Including in the requirements a specific statement that general and specific written representations do not constitute sufficient appropriate audit evidence in themselves and, accordingly, do not relieve the auditor of the responsibility to obtain other audit evidence. **(Refer Agenda Item E.1, paragraphs 6 and 9)**
 - Including an acknowledgement that general written representations are made to the best of the relevant persons’ knowledge and belief, having made all necessary inquiries. **(Refer Agenda Item E.1, paragraph 7)**
 - Reordering the required representations based on the three categories and inserting “whether” in front of the required representations to allow more flexibility to the wording of the representations. **(Refer Agenda Item E.1, paragraph 6)**
 - Clarifying that the assumptions relating to internal control and completeness of information are relevant for all audits; however, the detailed assumptions relating to the preparing and presenting the financial statements (sub bullets) may not always be

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relevant depending upon the financial reporting framework. *(Refer Agenda Item E.1, paragraph A13)*

- Redrafting the guidance to refer specifically to the fulfillment of relevant persons' responsibilities in relations to the assumptions underlying the performance of an audit. *(Refer Agenda Item E.1, paragraph 6(a) and (b))*
- Clarifying that where the auditor is unable to obtain appropriate general written representations, the possible effects on the financial statements of that inability are pervasive. In such circumstances, proposed ISA 705, "Modifications to the Opinion in the Independent Auditor's Report" requires that the auditor to disclaim an opinion on the financial statements. *(Refer Agenda Item E.1, paragraph 13)*
- Introducing and explaining the term "threshold amount" to avoid confusion as to the meaning of "materiality" in the context of written representations. The auditor may reach an understanding with relevant persons on different threshold amounts for different written representations. *(Refer Agenda Item E.1, paragraph A12)*

Material Presented – FOR CAG REFERENCE PURPOSES ONLY

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| Agenda Item E-1 | Proposed ISA 580 (Revised and Redrafted), "Written Representations" – Mark-up based on draft discussed at the May 11-12, 2006 IAASB CAG meeting |
| Agenda Item E-2 | Proposed ISA 580 (Revised and Redrafted), "Written Representations" - Clean |

Note from David Damant

Members of the CAG should note that the Task Force decided, based on the significance of the Representative's comments noted at the May 11-12, 2006 meeting, first to discuss those comments with the IAASB before revising the proposed ISA. I have asked Staff to prepare a mark-up from the proposed ISA, which was discussed at the May IAASB CAG meeting. This is presented as Agenda Item E.1. The changes shown in Agenda Item E.1 were in response to the Representatives' comments and additional comments by the IAASB.