

**IAASB CAG REFERENCE PAPER**  
**IAASB CAG Agenda (September 2006)**  
**Agenda Item E.2**  
**Proposed ISA 580 (Revised and Redrafted), “Written Representations”—CLEAN**

**PROPOSED INTERNATIONAL STANDARD ON AUDITING 580**  
**(REVISED AND REDRAFTED)**  
**WRITTEN REPRESENTATIONS**

(Effective for audits of financial statements for periods beginning on or after [date])

**Introduction**

**Scope of this ISA**

1. This International Standard on Auditing (ISA) deals with the auditor’s responsibility to obtain written representations, the procedures to be applied in evaluating and documenting such representations, and the action to be taken if the auditor is unable to obtain appropriate written representations.

**Effective Date**

2. This ISA is effective for audits of financial statements for periods beginning on or after [date].

**Objective to be Achieved**

3. In relation to this ISA, the objective of the auditor is to obtain corroborating audit evidence about whether assumptions underlying management activities and beliefs necessary for the performance of an audit of financial statements are appropriate.

**Definitions**

4. Written representations in the context of this ISA do not include financial statements, the assertions therein, and supporting books and records. The following terms are introduced in this ISA:
  - (a) Written representations - Written statements provided by relevant persons from within the entity to the auditor at the auditor’s request. Written representations are either general written representations or specific written representations.
  - (b) General written representations - Written representations by relevant persons about their activities and beliefs in relation to internal control, preparation and presentation of the financial statements and the completeness of information provided to the auditor.
  - (c) Specific written representations - Written representations from relevant persons in response to inquiries by the auditor, corroborating other evidence in relation to specific assertions embodied in the financial statements.
  - (d) Relevant persons – Individuals responsible and accountable for preparing and presenting the financial statements and assertions therein. Ordinarily, management is the responsible party and is accountable for preparing and

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presenting the financial statements, but there may be circumstances where, in addition, other individuals or bodies, such as those charged with governance, are also responsible and accountable. For specific written representations, relevant persons may also include, in rare circumstances, persons with expertise pertaining to specific assertions.

### **Requirements**

#### **Relevant Persons**

5. The auditor shall determine the relevant persons who are expected to provide general and, where appropriate, specific written representations. (Ref: Para. A1-A2)

#### **General Written Representations**

6. General 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. However, they provide necessary audit evidence as to whether assumptions underlying management activities and beliefs necessary for the performance of an audit are appropriate. To obtain such evidence, the auditor shall obtain written representations from relevant persons about internal control, the financial statements and the completeness of information provided to the auditor as follows:

Internal control:

- (a) Whether relevant persons acknowledge, understand and have fulfilled their responsibility for designing, implementing and maintaining internal control relevant to preparing and presenting financial statements that are free from material misstatement, whether due to fraud or error.

Financial statements:

- (b) Whether relevant persons acknowledge, understand and have fulfilled their responsibility for preparing and presenting financial statements in accordance with the applicable financial reporting framework, including the following, where relevant for the presentation of the financial statements:
  - All plans or intentions that may materially affect the carrying value or classification of assets and liabilities in the financial statements have been appropriately classified and disclosed in accordance with the applicable financial reporting framework;
  - All liabilities, both actual and contingent, have been recorded and disclosed, in accordance with the applicable financial reporting framework;
  - The entity has satisfactory title to, or control over, all assets recorded

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in the financial statements, and where appropriate, all liens or encumbrances on these assets have been disclosed, in accordance with the applicable financial reporting framework;

- The entity has complied with all aspects of contractual agreements that could have a material effect on the financial statements, or, in the event of non-compliance, has disclosed these aspects as required by the applicable financial reporting framework; and
- All events subsequent to the period end for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted and disclosed.

Completeness of information provided to the auditor:

- (c) Whether all records, documentation, unusual matters of which management is aware, and other information relevant to the audit have been made available to the auditor.

Other ISAs require the auditor to obtain additional general written representations that are included in the categories above. These ISAs are listed in Appendix 1 and included in the illustrative written representation letter in Appendix 2. (Ref: Para. A3-A8)

7. The representations from relevant persons shall include an acknowledgement that these representations are made to the best of their knowledge and belief, having made all necessary inquiries.
8. The representations shall be in the form of a representation letter addressed to the auditor and as of the same date as the auditor’s report, and shall cover all periods covered by the auditor’s report.

#### **Specific Written Representations**

9. The auditor shall obtain a specific written representation where the auditor determines that corroborating evidence, particularly with respect to matters involving judgment, intent or completeness, in relation to specific assertions in the financial statements is necessary to obtain sufficient appropriate audit evidence. A specific written representation, however, is not sufficient appropriate audit evidence by itself and, accordingly, does not relieve the auditor of the responsibility to obtain other audit evidence. (Ref: Para. A9-A12)
10. Because the auditor dates the auditor’s report no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on the financial statements, the auditor shall consider whether it is necessary to obtain updated specific written representations if the specific representation is as of a date earlier than that of the auditor’s report.

#### **Reliability of Written Representations**

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11. Where a written representation is inconsistent with other audit evidence obtained, the auditor shall determine the reasons for the inconsistency and undertake an appropriate action. Where the reliability of the written representation is in doubt, that representation is inadequate and, accordingly, the auditor shall reconsider the reliability of other written representations obtained and shall determine the effects on the auditor’s report.
12. Where the auditor has determined that weaknesses exist in commitment to competence, communication and enforcement of integrity and ethical values, or due care, the auditor shall assess the effect of such weaknesses on the assumptions underlying management activities and beliefs necessary for the performance of an audit and, consequently, on the reliability of written representations. Where the auditor concludes that the representations are not reliable, the assumptions underlying management activities and beliefs necessary for the performance of an audit are not appropriate. In such circumstances, the auditor has no basis on which to complete the audit and, accordingly, shall withdraw from the engagement. Where the auditor concludes that a written representation is reliable, irrespective of an identified weakness in the control environment, the auditor shall document the reasons therefor.

#### **Inability to Obtain Requested Written Representations**

13. Where the auditor is unable to obtain appropriate general written representations, the auditor is unable to obtain sufficient appropriate audit evidence about the appropriateness of the assumptions underlying the audit. The possible effects on the financial statements of that inability are pervasive. Therefore, in accordance with ISA 705, “Modifications to the Opinion in the Independent Auditor’s Report, the auditor shall disclaim an opinion on the financial statements. Where the auditor is unable to obtain an appropriate specific written representation that the auditor considers necessary in order to obtain sufficient appropriate audit evidence, this constitutes a scope limitation and the auditor shall follow the requirements of, and guidance in, ISA 705. (Ref: Para. A13)

#### **Application Material**

##### **Relevant Persons** (Ref: Para. 5)

- A1. To establish who the relevant persons for general written representations are, the governance structure of the entity, relevant legislation and circumstances of the engagement are important. Relevant persons include the entity’s chief executive officer and chief financial officer; however, there may be other relevant persons, for example members of the board of directors or supervisory board. Where uncertainty exists as to the identity of relevant persons, it may be necessary for the auditor to agree with the engaging party, prior to the engagement acceptance, who the relevant persons are.

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- A2. For the purposes of specific written representations, determination of the relevant persons is a matter of professional judgment. In rare circumstances, the auditor may conclude that the person responsible and accountable for the assertion is not the person knowledgeable about the assertion. In such cases, in addition to the signature of the responsible and accountable person, the signature of the person knowledgeable of the assertion may be necessary.

#### **General Written Representations** (Ref: Para. 6-8)

- A3. Legislation, financial reporting framework or custom may establish relevant persons’ responsibility and accountability for preparing and presenting the financial statements and for the assertions therein. However, the extent of the responsibility and accountability may differ across jurisdictions. Irrespective of these differences, an audit is based upon certain assumptions about management activities and beliefs. These assumptions include the relevant persons’ responsibility for the design, implementation and maintenance of internal control, preparation and presentation of the financial statements and completeness of information to be provided to the auditor and in particular, that relevant persons acknowledge, understand, and have fulfilled these responsibilities. Audit evidence obtained by the auditor throughout the audit provides support for these assumptions. Such support, however, is not sufficient without obtaining general written representations from relevant persons because knowledge such persons may have may not be available from other audit evidence. For example, an auditor could not conclude that all relevant information had been provided without asking whether all such information had been provided.
- A4. Relevant persons may have acknowledged the assumptions in the terms of engagement. However, without obtaining general written representations, the auditor would not have sufficient appropriate audit evidence in relation to the appropriateness of the assumptions. The expression of relevant persons’ responsibilities in law and the submission of financial statements signed by the relevant parties do not provide sufficient audit evidence in this context.
- A5. Requesting representations about important matters is an effective auditing procedure in that refusal to provide the requested representations may alert the auditor to possibly significant issues. Further, the discipline of written representations rather than informal inquiries will likely draw greater attention to the matters by the relevant persons. General written representations bring to the attention of and reinforce relevant persons’ responsibilities in relation to the financial statements and the audit and promote thoughtful consideration of specific issues.
- A6. In some circumstances, it may be appropriate for the auditor to request that the written representations letter be discussed with, and agreed by, those charged with governance to ensure that all those charged with governance are aware of

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written representations on which the auditor intends to rely in forming an opinion on the financial statements.

#### **Considerations Specific to the Audit of Smaller Entities**

- A7. In smaller entities the process of obtaining a representation letter may be a particularly useful tool where there is a need to clarify the relevant persons’ understanding of the assumptions about management’s activities and beliefs that underlie an audit.

#### **Considerations Specific to the Public Sector**

- A8. The objectives of an audit of public sector entities, legislation or circumstances may give rise to the need for additional general written representations. These may include the following:
- General written representations acknowledging economy, efficiency and effectiveness of programs, projects and other activities.
  - General written representations on the existence of the internal audit function, appropriate for the size of the entity and its activities.
  - General written representations pertaining to the auditor’s evaluation of the entity’s risk assessment systems. In these circumstances, general written representations may also address systems and procedures in place to assess risks and whether relevant persons have monitored and assessed such systems and procedures.

#### **Specific Written Representations** (Ref: Para. 9-10)

- A9. There may be circumstances, where the auditor concludes that a specific written representation is necessary to corroborate other evidence obtained, particularly where intent is involved.
- A10. Evaluating intent involves uncertainty due to its subjective nature. In some cases, the auditor may obtain evidence supporting or inconsistent with relevant persons’ assertions by considering matters directly or indirectly linked to the assertion. For example, relevant persons may assert their intent to operate a plant in financial difficulties. In the course of the auditor’s assessment of the relevant persons’ assertion, the auditor obtains information that the product made in the plant is being replaced by a new generation product made by another entity. Such information may provide the auditor with evidence inconsistent with the relevant persons’ assertion. When evaluating relevant persons’ judgments and intentions, the auditor may consider one or more of the following:
- The entity’s past history in carrying out its stated intentions.
  - The entity’s reasons for choosing a particular course of action.
  - The entity’s ability to pursue a specific course of action.

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- The existence or lack of any other information that might have been obtained during the course of the audit that may be inconsistent with management’s judgment or intent.

A11. The auditor recognizes that the reliability of a specific written representation is influenced by its source and by its nature. Because the source is not independent, a specific written representation does not provide sufficient appropriate audit evidence by itself. For example, a written response to a specific inquiry in relation to the cost of an asset is not a substitute for the audit evidence of such cost that the auditor would ordinarily expect to obtain. In some circumstances, such as valuation of investments where management intent is crucial to the accounting treatment, it may not be possible to obtain sufficient appropriate audit evidence without a specific written representation from relevant persons in relation to their intentions. In these cases, a specific written representation, in conjunction with other evidence obtained by the auditor, may provide sufficient appropriate audit evidence.

#### **Threshold Amount**

A12. Where applicable, general and specific written representations may be limited to matters above threshold amounts established by the auditor for the purposes of such representations, having given effect to the possibility of immaterial matters aggregating to become material. In setting a threshold amount an auditor also may consider the qualitative aspects of some matters like fraud. The auditor may consider reaching an understanding on the threshold amounts with relevant persons for this purpose. Threshold amounts may be different for different written representations. Threshold amounts may not apply to representations concerning overall responsibilities such as for internal control.

#### **Inability to Obtain Representations** (Ref: Para. 13)

A13. General representations relating to the relevant persons’ responsibility for the design, implementation and maintenance of internal control and to the completeness of information provided are relevant for all audits. However, some general representations relating to the relevant persons’ responsibility for preparing and presenting the financial statements may not be relevant in all circumstances. For example, where the financial statements were prepared and presented, in accordance with the applicable financial reporting framework, on the cash basis, written representations relating to liabilities may not be necessary.

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### **Appendix 1**

#### **List of ISAs Containing Written Representation Requirements**

[Proposed] ISA 240 (Redrafted) “The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statement” – paragraph 31.

ISA 250 “Consideration of Laws and Regulations” – paragraph 23.

[Proposed] ISA 540 (Revised and Redrafted) “Auditing Accounting Estimates and Related Disclosures (Other than Those Involving Fair Value Measurements and Disclosures)” – paragraph 25.

ISA 545 “Auditing Fair Value Measurements and Disclosures” – paragraphs 63-64.

[Proposed] ISA 550 (Revised and Redrafted) “Related Parties” – paragraph 25.

ISA 570 “Going Concern” – paragraph 26c.



**Appendix 2**

**Example of a General Written Representations Letter**

The following letter includes general written representations required by this and other ISAs in effect December 31, 2006.<sup>1</sup> It is assumed in this example that there are no exceptions to the requested representations. If there were exceptions, the letter would need to be modified accordingly to reflect the exception. Where the auditor determines that one or more specific written representations are sufficiently important, the auditor may conclude that the inclusion thereof in the representation letter is appropriate. Although such inclusion of specific written representations on a variety of matters may serve to focus relevant persons’ attention on those matters, and thus cause the relevant persons to specifically address those matters in more detail than would otherwise be the case, the auditor needs to be aware of the limitations of specific written representations as audit evidence as set out in this ISA.

(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the financial statements of ABC Company for the year ended December 31, 20XX for the purpose of expressing an opinion as to whether the financial statements “give a true and fair view” or “are presented fairly, in all material respects,” in accordance with the applicable financial reporting framework. We confirm, to the best of our knowledge and belief, having made all necessary inquiries, that:

*Internal Control*

- We acknowledge, understand and have fulfilled our responsibility for the design and implementation of internal control to prepare financial statements in accordance with the applicable financial reporting framework.

*Financial Statements*

- We acknowledge, understand and have fulfilled our responsibility for preparing and presenting the financial statements in accordance with the applicable financial reporting framework, including the following:
  - All plans or intentions that may materially alter the carrying value or classification of assets and liabilities in the financial statements have been disclosed in accordance with the applicable financial reporting framework.
  - All liabilities, both actual and contingent, have been recorded, and where appropriate, disclosed, in accordance with the applicable financial reporting framework.
  - The entity has satisfactory title to, or control over, all assets disclosed in the

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<sup>1</sup> Where the auditor reports on more than one period, the auditor adapts the date such that the letter pertains to all periods covered by the audit report.

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financial statements, and where appropriate, all liens or encumbrances on these assets have been disclosed, in accordance with the applicable financial reporting framework.

- We have complied with the aspects of contractual agreements that could have a material effect on the financial statements and instances of non-compliance have been disclosed as required by the applicable financial reporting framework.
- We believe that significant assumptions used by us in making accounting estimates are reasonable and appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures (ISA 540).
- We believe that all significant assumptions in relation to fair value measurements and disclosures are reasonable and appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity (ISA 545).
- We believe that the measurement methods, including related assumptions, used by us in determining fair values within the applicable financial reporting framework, and the consistency in application of the methods are appropriate (ISA 545).
- We believe that all events subsequent to period end for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.
- We made all appropriate related party disclosures in the financial statements (ISA 550).
- The related party relationships and transactions have been appropriately accounted for (ISA 550).
- We believe the effects of uncorrected misstatements identified by the auditor are immaterial, both individually and in the aggregate, to the financial statements. A list of the uncorrected misstatements is attached to the representation letter. (ISA 450)

#### *Completeness of Information*

- All records, documentation, unusual matters of which management is aware, and other information relevant to the audit have been made available to you.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud (ISA 240).
- We have disclosed to you all information in relation to fraud or suspected fraud affecting the entity involving:
  - (i) Management;
  - (ii) Employees who have significant roles in internal control; or

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- (iii) Others where the fraud could have a material effect on the financial statements (ISA 240).
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others (ISA 240).
- We have disclosed to you all known actual or possible noncompliance with laws and regulations whose effects should be considered when preparing financial statements (ISA 250).
- We have provided to you a complete and accurate of information regarding related party relationships and transactions (ISA 550).

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(Relevant Person)

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(Relevant Person)

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**PROPOSED CONFORMING AMENDMENT**  
**INTERNATIONAL STANDARD ON AUDITING 200**  
**OBJECTIVE AND GENERAL PRINCIPLES GOVERNING AN AUDIT OF**  
**FINANCIAL STATEMENTS**

- 33a. Certain assumptions underlie an audit of financial statements and are essential to its effectiveness. These assumptions include, but are not limited to, whether management acknowledges, understands and has fulfilled its responsibility for:
- The preparation and presentation of the financial statements in accordance with the applicable financial reporting framework,
  - The design, implementation and maintenance of internal control over financial reporting, and
  - The completeness of information provided to the auditor.

As the audit progresses the auditor tries to obtain sufficient appropriate audit evidence about these assumptions. Written representations constitute a necessary part of this evidence. Consequently, without general written representations from relevant persons about these assumptions, the auditor cannot obtain sufficient appropriate audit evidence to support the use of them in the audit.

**CONFORMING AMENDMENT**  
**INTERNATIONAL STANDARD ON AUDITING 210**  
**TERMS OF AUDIT ENGAGEMENTS**

**Agreement on Underlying Assumptions with Management**

- 15d. **The auditor should identify and agree with management the assumptions underlying management activities and beliefs necessary for the performance of an audit.**
- 15e. ISA 200 discusses the assumptions underlying management activities and beliefs necessary for the performance of an audit at the outset of an audit of financial statements. The auditor may determine that there may be a risk that the Assumptions may not be understood by management. To make management aware that these assumptions confirmed by written representations are an integral part of the audit, the auditor may include in the audit engagement letter the auditor’s expectation of receiving from relevant persons general and, where appropriate, specific written representations.
- 15f. Where the auditor and management fail to agree on the assumptions underlying management activities and beliefs necessary for the performance of an audit, including confirmation of these assumptions by general written representations,

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the auditor will be unable to obtain sufficient appropriate audit evidence. In such circumstances, it may not be appropriate for the auditor to accept the engagement. In some cases, law or regulation prevents the auditor from not accepting an engagement. In these cases, the auditor may need to explain to management and those charged with governance the importance of such an agreement to provide written representations and the implications for the auditor’s report.