

*Proposed Revised and Redrafted International
Standard on Auditing*

ISA 580, Written Representations



**International Federation
of Accountants**

REQUEST FOR COMMENTS

The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body within the International Federation of Accountants (IFAC), approved the exposure draft, proposed International Standard on Auditing (ISA) 580 (Revised and Redrafted), “Written Representations,” for publication in December 2006. The proposed ISA may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by e-mail, so that they will be received by **April 30, 2007**. All comments will be considered a matter of public record. Comments should be addressed to:

Executive Director, Professional Standards
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Email responses should be sent to: Edcomments@ifac.org

Copies of the exposure drafts may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to, and an explanation of, the proposed International Standard on Auditing (ISA) 580 (Revised and Redrafted), “Written Representations,” approved for exposure by the International Auditing and Assurance Standards Board (IAASB) in December 2006.

Background

The IAASB commenced this project in April 2004 in response to developments that indicated a need to revise extant ISA 580, “Management Representations.” These included concerns that auditors may be over relying on written representations. During the project, the IAASB considered matters such as the reasons for obtaining written representations, the evidence that they provide, and from whom they should be requested.

The IAASB believes that the proposed revised ISA will enhance auditor performance in an audit of financial statements through more stringent requirements and expanded guidance.

Significant Proposals

Relevant Parties

Diversity of the authority or responsibility of management and those charged with governance across jurisdictions makes it difficult to establish universal identification of the persons from whom the auditor should request written representations. Furthermore, individuals other than management or those charged with governance may have specialized knowledge about specific assertions in the financial statements. The proposed revised ISA therefore requires the auditor to determine relevant parties from whom written representations (both general and specific, see below) should be requested.

Relevant parties are to be requested to provide the written representations based on their knowledge and belief, having made appropriate inquiries to be able to provide such representations.

General Written Representations

The IAASB is of the view that an audit of financial statements in accordance with the ISAs is based on the fundamental premises that management is responsible for (a) preparing and presenting the financial statements in accordance with the applicable financial reporting framework; (b) 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; and (c) the completeness of information made available to the auditor.

The IAASB acknowledges that legislation, the applicable financial reporting framework, or custom may establish management’s specific responsibilities for preparing and presenting the financial statements. However, the extent of those responsibilities may differ across jurisdictions. The IAASB therefore proposes that ISA 200, “Objective and General Principles Governing an Audit of Financial Statements” be amended to explain that ISAs are written, and audits are conducted, based on the abovementioned premises.

There is a risk that the premises may not be understood by management or, where appropriate, those charged with governance. To avoid misunderstanding, a proposed conforming amendment to ISA 210, “Terms of Audit Engagements” requires the auditor to obtain the acknowledgement and agreement of management and, where appropriate, those charged with governance that they understand the responsibilities.

The proposed revised ISA requires the auditor to request relevant parties to provide general written representations about the premises (see paragraphs 8-10.) Audit evidence obtained during the audit may support or contradict the validity of the premises; however, such evidence is not sufficient without obtaining the general written representations. This is because the auditor may not be able to judge management’s knowledge, judgments or intentions solely on other audit evidence.

When relevant parties do not provide the general representations requested by the auditor, or where the auditor concludes that such representations are not reliable, the IAASB is of the view that the auditor is unable to obtain sufficient appropriate audit evidence, and that the possible effects on the financial statements of such inability are pervasive. The auditor therefore is required to disclaim an opinion on the financial statements in such circumstances.

The proposed revised ISA, however, explains that a general written representation that has been modified from that requested by the auditor does not necessarily mean that relevant parties did not provide the representation. The reason for the modification nevertheless may affect the opinion in the auditor’s report. (See paragraph A19.)

Specific Written Representations

Extant ISA 580 requires the auditor to obtain written representations on matters material to the financial statements *when other sufficient appropriate audit evidence cannot reasonably be expected to exist*. To avoid over reliance on written representations, the proposed revised ISA requires the auditor to obtain written representations regarding specific assertions in the financial statements (“specific written representations”) *when the auditor considers it necessary to corroborate other audit evidence*. These specific written representations are in addition to those required in accordance with the other ISAs.

Specific written representations are particularly relevant in relation to assertions that involve judgment or intent, or that may not be complete. They do not constitute sufficient appropriate audit evidence by themselves and, accordingly, they do not relieve the auditor of the responsibility to obtain other audit evidence.

When relevant parties do not provide specific written representations requested by the auditor, the IAASB is of the view that it constitutes a scope limitation. Where this is the case, the auditor is required to consider the effect thereof on the opinion in the auditor’s report.

Threshold Amount

The IAASB is of the view that, in some circumstances, the auditor may decide that it would be more effective if the written representations were 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. The proposed revised ISA therefore provides guidance in this regard, indicating that the auditor may consider agreeing the threshold amounts with relevant parties. (See paragraph A16.)

Effective Date

The IAASB will determine the effective date of the final ISA after considering the comments received on exposure. It is not envisaged that this date will be earlier than December 15, 2008.

Guide for Respondents

The IAASB welcomes comments on the proposed revised ISA. Apart from the request for specific comments set out below, the IAASB is seeking comments on all matters addressed in the exposure draft. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this exposure draft (especially those calling for change in current practice), it will be helpful for the IAASB to be made aware of this view.

Request for Specific Comments

General Written Representations Regarding the Financial Statements and Internal Control

In approving the proposed revised ISA for public comment, some IAASB members were concerned about the details of the general written representations regarding the financial statements. In particular, they were concerned about the third bullet of paragraph 8, which requires relevant parties to state whether specific matters, where relevant in view of the applicable financial reporting framework, have been recognized, measured or disclosed in accordance with that framework. They suggested that the sub-bullets be moved to the application material.

The majority of the IAASB took the view that the detailed elements of the representation were required in order to reinforce the implications of the overall representation about the preparation of the financial statements in accordance with the applicable financial reporting framework. Retaining these details would help to avoid misunderstanding, and thereby improve the quality of the representation received.

Question 1: Respondents are asked for their views on this matter.

All IAASB members agreed that relevant parties should be requested to confirm that they acknowledge and understand their responsibility for designing, implementing and maintaining internal control relevant to preparing and presenting financial statements that are free from material misstatement (see paragraph 9). Some IAASB members, however, were concerned about requesting relevant parties to confirm whether they believe that the internal control they have maintained is adequate for that purpose (see paragraph 9). They were of the view that the requirement will be interpreted as requiring relevant parties to assess the effectiveness of internal control.

The majority of IAASB members, however, argued that it is important that relevant parties not only acknowledge and understand their responsibility for internal control, but also confirm whether they believe that the internal control is adequate to support the preparation and presentation of the financial statements. Without this, there would be the possibility that those responsible might acknowledge their responsibilities but be aware of shortcomings in the internal control that may be relevant to the financial statements without informing the auditor. The representation is based on relevant parties' knowledge and belief, having made *appropriate inquiries* to be able to provide such representation (see paragraph 6). It is not envisaged that such inquiries will entail a comprehensive assessment of the effectiveness of internal control.

Question 2: Respondents are asked to comment on the requirement for the auditor to request relevant parties to confirm whether they believe that the internal control they have maintained is adequate for preparing and presenting financial statements that are free from material misstatement.

Disclaimer of Opinion when General Written Representations are Not Obtained

Some IAASB members were concerned about the requirement in paragraph 19 for the auditor to disclaim an opinion on the financial statements when relevant parties do not provide the general written representations about the premises, relating to management's responsibilities, on which an audit is conducted (see paragraph 8-10). Their concern was that this did not give scope for the auditor to judge the seriousness of the matter, particularly as the requirement would be triggered by a failure to provide one of the detailed elements of the representation (see question 1 above).

The majority of IAASB members, however, were of the view that a failure to provide a specific element of the written representation would undermine the validity of the general written representation itself. If relevant persons had a concern about one or more aspects of the requested written representations it would be open to them to modify such representations appropriately to reflect this. In those circumstances the auditor would be required to use judgment to evaluate the effect of the modified written representations. Paragraph A19 was added to explain how written representations that have been modified from those requested by the auditor may affect the audit and the audit opinion.

Question 3: Respondents are asked to comment on the requirement in paragraph 19 for the auditor to disclaim an opinion on the financial statements when relevant parties do not provide the general written representations about the premises, relating to management's responsibilities, on which an audit is conducted.

Date of the Written Representations

In accordance with paragraph 11, the general written representations should be as of the same date as the auditor's report on the financial statements. Paragraph 13 requires the auditor to determine whether it is necessary to request relevant parties to provide an updated specific written representation when the specific written representation is as of a date earlier than that of the auditor's report on the financial statements.

An IAASB member is of the view that the requirement in paragraph 11 may not be practical and that the date of the general written representations should be the same date as the approval of the financial statements.

Question 4: Respondents are asked to comment on the date of the general written representations.

Objective and Requirements

The proposed revised ISA has been drafted in accordance with the clarity drafting conventions.

Question 5: Respondents are asked to consider whether the objective for the proposed revised ISA is appropriate, and whether the proposed requirements are appropriate responses to that objective.

Comments on Other Matters

Recognizing that the proposed revised ISA will apply to audits of all sizes and in all sectors of the economy, the IAASB is also interested in comments on matters set out below.

Special Considerations in the Audit of Small Entities

Respondents are asked to comment on whether, in their opinion, considerations in the audit of small entities have been dealt with appropriately in the proposed revised ISA. Reasons should be provided if not in agreement, as well as suggestions for alternative or additional guidance.

Special Considerations in the Audit of Public Sector Entities

A representative of the Financial Audit Guidelines Subcommittee of the International Organization of Supreme Audit Institutions participated in the development of the exposure draft. Respondents are asked to comment on whether, in their opinion, special considerations in the audit of public sector entities have been dealt with appropriately in the proposed revised ISA. Reasons should be provided if not in agreement, as well as suggestions for alternative or additional guidance.

Developing Nations

Recognizing that many developing nations have adopted or are in the process of adopting the ISAs, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in applying the proposed revised ISA in a developing nation environment. Reasons should be provided, as well as suggestions for alternative or additional guidance.

Translations

The IAASB welcomes comment from respondents on potential translation issues noted in reviewing the proposed revised ISA.

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

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

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^{*} See footnote 1.

International Standard on Auditing (ISA) 580 (Revised and Redrafted), “Written Representations” should be read in the context of the “Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services,” which sets out the authority of ISAs.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to request written representations, and the auditor's actions when relevant parties do not provide the requested written representations, or when the auditor concludes that such written representations are not reliable. Appendix 1 lists other ISAs containing requirements and guidance for written representations. Those requirements do not limit the application of this ISA.

Effective Date

2. This ISA is effective for audits of financial statements for periods beginning on or after [date].¹

Objective

3. The objective of the auditor is to corroborate, by means of written representations:
 - (a) The validity of the premises, relating to management's responsibilities, on which an audit is conducted;² and
 - (b) Other audit evidence obtained with regard to specific assertions in the financial statements.

Definitions

4. For purposes of the ISAs, the following terms have the meanings attributed below:
 - (a) Written representations – Written statements provided by relevant parties from within the entity to the auditor at the auditor's request. Written representations are either general or specific. Written representations in the context of this ISA do not include financial statements, the assertions therein, and supporting books and records.
 - (b) General written representations – Written representations regarding the premises, relating to management's responsibilities, on which an audit is conducted.
 - (c) Specific written representations – Written representations regarding specific assertions in the financial statements.
 - (d) Relevant parties – Parties responsible for preparing and presenting the financial statements and assertions therein. Regarding specific assertions, relevant parties may also include individuals who have specialized knowledge about those specific

¹ This effective date will not be earlier than December 15, 2008.

² The term "management" has been used in this ISA to describe those responsible for preparing and presenting the financial statements. Other terms may be appropriate depending on the legal framework in the particular jurisdiction.

assertions and are part of the process followed in preparing and presenting the financial statements and assertions therein. (Ref: Para. A1-A2)

- (e) The premises, relating to management’s responsibilities, on which an audit is conducted – Those responsibilities of management and, where appropriate, those charged with governance that are fundamental to the conduct of an audit in accordance with the ISAs. They are explained in ISA 200, “Objective and General Principles Governing an Audit of Financial Statements.”

Requirements

Relevant Parties

- 5. The auditor shall determine the relevant parties from whom general and specific written representations shall be requested. (Ref: Para. A1-A3)
- 6. The auditor shall request that relevant parties provide written representations based on relevant parties’ knowledge and belief, having made appropriate inquiries for them to be able to provide such representations.

General Written Representations

- 7. The auditor shall request relevant parties to provide the general written representations about the financial statements, including internal control, and the completeness of information made available to the auditor set out in paragraphs 8-10 for all financial statements and periods covered by the auditor’s report. Such general written representations provide necessary audit evidence about the validity of the premises, relating to management’s responsibilities, on which an audit is conducted. However, by themselves, they do not constitute sufficient appropriate audit evidence about the validity of the premises. Accordingly, they do not relieve the auditor of the responsibility to obtain other audit evidence. (Ref: Para. A4-A11, A16)

Financial Statements

- 8. The auditor shall request relevant parties to provide written representations that they acknowledge and understand their responsibility for preparing and presenting the financial statements, and whether they believe that the financial statements are prepared in accordance with the applicable financial reporting framework (or are fairly presented in accordance with the applicable financial reporting framework, when that framework is a fair presentation framework). The representations shall include:
 - Whether the selection and application of accounting policies are appropriate;
 - Whether all transactions have been recorded; and
 - Whether the following matters, where relevant in view of the applicable financial reporting framework, have been recognized, measured or disclosed in accordance with that framework:
 - Plans or intentions that may affect the carrying value or classification of assets and liabilities;

- Liabilities, both actual and contingent;
- Title to or control over assets, and the liens or encumbrances on assets, and assets pledged as collateral;
- Aspects of contractual agreements that may affect the financial statements, including noncompliance; and
- Events subsequent to the period end.

Internal Control

9. The auditor shall request relevant parties to provide a written representation that they acknowledge and understand 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, and whether they believe that the internal control they have maintained is adequate for that purpose.

Completeness of Information

10. The auditor shall request relevant parties to provide a written representation whether they believe that all records, documentation, unusual matters of which they are aware, and other information relevant to the audit have been made available to the auditor.

Form and Date of General Written Representations

11. The general written representations shall be in the form of a representation letter addressed to the auditor. The general written representations shall be as of the same date as the auditor's report on the financial statements. (Ref: Para. A15)

Specific Written Representations

12. Other ISAs contain requirements for specific written representations. In addition to those, a specific written representation may be necessary to corroborate other audit evidence, particularly where judgment, intent or completeness is involved. The auditor shall determine whether specific written representations relating to specific assertions in the financial statements are necessary. Such specific written representations do not constitute sufficient appropriate audit evidence by themselves. Accordingly, they do not relieve the auditor of the responsibility to obtain other audit evidence. (Ref: Para. A12-A14, A16)
13. The auditor shall determine whether it is necessary to request relevant parties to provide an updated specific written representation when the specific written representation is as of a date earlier than that of the auditor's report on the financial statements. (Ref: Para. A15)

Evaluating the Reliability of Written Representations

14. Circumstances such as the following may cause the auditor to doubt the reliability of one or more written representations:
 - One or more written representations are inconsistent with other audit evidence; or

- The auditor has identified significant issues related to management’s commitment to competence, communication and enforcement of integrity and ethical values, or diligence.
15. When a written representation is inconsistent with other audit evidence, the auditor shall determine the reasons for the inconsistency. When the auditor’s doubt remains unresolved, the auditor shall reconsider the reliability of other written representations and take appropriate action. (Ref: Para. A17)
 16. When the auditor has identified significant issues related to management’s commitment to competence, communication and enforcement of integrity and ethical values, or diligence, the auditor shall assess the effect of these issues on the reliability of written representations and take appropriate action. (Ref: Para. A18)
 17. When the auditor concludes that the general written representations about the financial statements, including internal control, or the completeness of information made available to the auditor (see paragraphs 8-10) are not reliable, the premises, relating to management’s responsibilities, on which an audit is conducted are not valid, and the auditor shall follow the requirement in paragraph 19.

When Relevant Parties Do Not Provide Requested Written Representations

18. When relevant parties do not provide the general or specific written representations requested by the auditor, the auditor shall (a) ask for the reasons; (b) reconsider the assessment of the integrity of management and, where appropriate, those charged with governance; and (c) take appropriate actions, including determining the possible effects on the opinion in the auditor’s report, having regard to the requirements in paragraphs 19-20. (Ref: Para. A19)
19. When relevant parties do not provide the general written representations about the premises, relating to management’s responsibilities, on which an audit is conducted (see paragraphs 8-10) (or the auditor concludes that such general written representations are unreliable (see paragraph 17)), the auditor is unable to obtain sufficient appropriate audit evidence. The possible effects on the financial statements of such 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.
20. When relevant parties do not provide specific written representations requested by the auditor, it constitutes a scope limitation. Where this is the case, the auditor shall consider the effect on the opinion in the auditor’s report in accordance with ISA 705.

Documentation

21. Where an identified significant issue related to management’s commitment to competence, communication and enforcement of integrity and ethical values, or diligence exists (see paragraph 16), but the auditor concludes that a written representation is nevertheless reliable, the auditor shall document the reasons for the conclusion.

Application and Other Explanatory Material

Relevant Parties (Ref: Para. 4(d), 5)

- A1. To identify relevant parties from whom general written representations are to be requested, it is important to consider the governance structure of the entity, relevant legislation, and circumstances of the engagement. Ordinarily, management is the party responsible for preparing and presenting the financial statements and the assertions therein. Relevant parties therefore include the entity's chief executive officer and chief financial officer or other equivalent persons in entities that do not use such titles. In some circumstances, however, other individuals or bodies, such as those charged with governance, are also responsible.
- A2. The auditor applies professional judgment in identifying relevant parties from whom specific written representations are to be requested. The auditor may identify individuals other than those described in paragraph A1 who have specialized knowledge relating to specific assertions in the financial statements and are part of the process followed in preparing and presenting the financial statements and assertions therein. For example:
- An entity may employ an actuary who has responsibility for and specialized knowledge about actuarially determined accounting measurements.
 - Staff engineers may have responsibility for and specialized knowledge about environmental liability measurements.
 - Internal counsel may provide information essential to provisions for legal claims.
- A3. Where uncertainty exists as to the identity of relevant parties, it may be necessary for the auditor to agree with the engaging party, prior to accepting the engagement, who the relevant parties are. This is discussed in ISA 210, "Terms of Audit Engagements."

General Written Representations (Ref: Para. 7-11)

- A4. Legislation, the applicable financial reporting framework, or custom may establish management's responsibility for preparing and presenting the financial statements and for the assertions therein. However, the extent of this responsibility may differ across jurisdictions. Despite these differences, an audit in accordance with the ISAs is conducted on the premises that management is responsible for: preparing and presenting the financial statements in accordance with the applicable financial reporting framework; 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; and the completeness of information made available to the auditor. Audit evidence obtained during the audit may support or contradict the validity of these premises. However, such evidence is not sufficient without obtaining the general written representations described in paragraphs 8-10. This is because the auditor may not be able to judge relevant parties' knowledge, judgments or intentions based on other audit evidence. For example, an auditor could not conclude that all relevant information has been made available without asking whether all such information had been made available.

- A5. The expression of relevant parties' responsibilities in law and their signing of the financial statements do not, by themselves, provide sufficient other audit evidence, or serve as a substitute for the written representations required by the ISAs.
- A6. Requesting representations about important matters is an effective auditing procedure for a number of reasons. When relevant parties do not provide the representations requested by the auditor, it may alert the auditor to possibly significant issues. Further, the requirement to make written, rather than oral, representations is likely to cause the relevant parties to pay greater attention to such matters. Having to make the general written representations reinforces relevant parties' responsibilities in relation to the financial statements and the audit, and prompts them to consider specific issues more thoughtfully. Obtaining a representation letter may be particularly useful where there is a need to clarify the relevant parties' understanding of the premises, relating to management's responsibilities, on which an audit is conducted.
- A7. The general written representations relating to relevant parties' responsibility for (a) 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, and (b) the completeness of information made available to the auditor, are relevant for all audits. However, some general representations relating to relevant parties' responsibility for preparing and presenting the financial statements in accordance with the applicable financial reporting framework may not always be relevant. For example, written representations relating to liabilities may not be necessary where the financial statements were prepared and presented on a cash basis in accordance with the applicable financial reporting framework.
- A8. All periods covered by the auditor's report on the financial statements need to be covered by the general written representations and specific written representations because relevant parties need to reaffirm that the representations they previously made with respect to prior periods remain appropriate. The auditor and relevant parties may agree to a form of representation letter that updates previous representations by addressing whether there are any changes to such representations and, if so, what they are.
- A9. Situations may arise where relevant parties who were in place during the period being audited are not in place at the time the written representations are requested by the auditor. Relevant parties, who were not in place during the period being audited, may assert that they are not in a position to provide some or all of the representations requested by the auditor; however, this fact does not diminish their responsibilities. Accordingly, the auditor's responsibility to obtain written representations from them is not affected.
- A10. [Proposed] ISA 260 (Revised and Redrafted), "Communication with Those Charged with Governance" requires the auditor to communicate with those charged with governance the representations the auditor requested from relevant parties. In some circumstances, it may be appropriate for the auditor to request that the representation letter also be agreed by those charged with governance to ensure that all those charged with governance agree with the written representations that the auditor considers essential to forming an opinion on the financial statements.

Considerations Specific to Public Sector Entities

- A11. The mandates for audits of the financial statements of public sector entities may be broader than those of other entities. As a result, the objectives of an audit of the financial statements of a public sector entity may give rise to additional general written representations. These may include representations acknowledging economy, efficiency and effectiveness of programs, projects and other activities, or that transactions and events have been carried out in accordance with legislation or proper authority.

Specific Written Representations (Ref: Para. 12)

- A12. A specific written representation may be necessary to corroborate other audit evidence; in particular, where judgment, intent or completeness is involved. For example, when auditing the valuation of investments where management's 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 parties in relation to their intentions.
- A13. Evaluating judgment or intent is inherently subjective, and therefore uncertain. In some cases, the auditor may obtain audit evidence supporting, or which is inconsistent with, relevant parties' assertions by considering matters directly or indirectly linked to the assertion. When evaluating relevant parties' 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.
 - 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.
- A14. 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 in relation to such cost that the auditor would ordinarily expect to obtain. Furthermore, audit evidence is influenced by its source and nature. For example, where the source of a specific written representation is not independent from the entity.

Date of Written Representations (Ref: Para. 11, 13)

- A15. Because the auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to or disclosure in the financial statements, the general written representations are made as of the date of the auditor's report. However, in some circumstances it may be appropriate for the auditor to obtain a specific written representation during the course of the audit. Where this is the case, it may be necessary to request relevant parties to provide an updated specific written representation.

Threshold Amounts (Ref: Para. 7, 12)

- A16. In some circumstances, the auditor may decide that it would be more effective if general and specific written representations were 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. Accordingly, any such threshold amount will be relatively small in relation to materiality. For this purpose, the auditor may consider agreeing on the threshold amounts with relevant parties. Threshold amounts may vary with different written representations. It may not be appropriate to subject some matters to a threshold amount. For example it may not be appropriate to limit representations to a threshold amount about the responsibilities of relevant parties or matters related to fraud because of qualitative considerations.

Evaluating the Reliability of Written Representations (Ref: Para 15-16)

- A17. The appropriate action to be taken in relation to identified inconsistencies may include considering whether the auditor's risk assessment remains appropriate and, if not, revising the risk assessment and determining the nature, timing and extent of further audit procedures to respond to the assessed risks. It may also include the actions referred to in paragraph A18 below.
- A18. In the event that the auditor identifies issues related to management's commitment to competence, communication and enforcement of integrity and ethical values, or diligence, appropriate action may include discussing the matter with those charged with governance and, where possible, withdrawing from the engagement unless those charged with governance put in place appropriate corrective measures. Such action may not be sufficient, however, to enable the auditor to issue an unmodified audit opinion.
- A19. A written representation that has been modified from that requested by the auditor does not necessarily mean that relevant parties did not provide the written representation. However, such modification may affect the opinion in the auditor's report. For example:
- The general written representation relating to the financial statements may state that relevant parties believe that, except for material noncompliance with a particular requirement of the applicable financial reporting framework, the financial statements are prepared in accordance with that framework. The requirement in paragraph 19 does not apply because the auditor concluded that relevant parties have provided reliable general written representations. However, the auditor considers the effect of the noncompliance on the opinion in the auditor's report in accordance with ISA 705.
 - The general written representation relating to internal control may state that relevant parties believe that, except for internal control over a particular account balance, it has maintained internal control adequate for preparing and presenting financial statements that are free from material misstatement, whether due to fraud or error. The requirement in paragraph 19 does not apply because the auditor concluded that relevant parties have provided reliable general written representations. Furthermore, the auditor may be able to obtain sufficient appropriate other audit evidence in relation to that account balance and, as a result, the statement in the general representation may not affect the opinion in the auditor's report. However, the

auditor considers whether a material weakness in internal control existed and the effect thereof on the audit.

- The general written representation relating to completeness of information made available to the auditor may state that relevant parties believe that, except for information destroyed in a fire, all records, documentation, unusual matters of which they are aware, and other information relevant to the audit have been made available to the auditor. The requirement in paragraph 19 does not apply because the auditor concluded that relevant parties have provided reliable general written representations. The auditor considers the effects of the pervasiveness of the information destroyed in the fire on the financial statements and the effect thereof on the opinion in the auditor's report in accordance with ISA 705. Depending on the pervasiveness of the effects, the auditor may disclaim an opinion.

Appendix 1

(Ref: Para. 1)

List of ISAs Containing Requirements for Written Representations

ISA 240 (Redrafted), “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statement” – paragraph 39

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

[Proposed] ISA 450 (Redrafted), “Evaluation of Misstatements Identified during the Audit” – paragraph 16

[Proposed] ISA 540 (Revised and Redrafted) (Combined ISA 540-545), “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures” – paragraph 20

[Proposed] ISA 550 (Revised and Redrafted), “Related Parties” – paragraph 24

ISA 570, “Going Concern” – paragraph 26(c)

Appendix 2

Illustrative Representation Letter

The following illustrative letter includes written representations (some of which are specific written representations) that are required by this and other ISAs in effect as of [date]. It is assumed in this example that the requirement of ISA 570, “Going Concern” to obtain a written representation is not relevant and that there are no exceptions to the representations requested by the auditor. If there were exceptions, the representations would need to be modified to reflect the exceptions as discussed in paragraph A19. Where the auditor determines that one or more additional 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 parties’ attention on those matters, and thus cause the relevant parties 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, 20XX³ for the purpose of expressing an opinion as to whether the financial statements [give a true and fair view][are presented fairly, in all material respects,] in accordance with [specify the applicable financial reporting framework]. We confirm, to the best of our knowledge and belief, having made appropriate inquiries to be able to provide our representations, that:

Financial Statements

- We acknowledge and understand our responsibility for preparing and presenting the financial statements and believe that the financial statements are prepared in accordance with [specify the applicable financial reporting framework] (or are fairly presented in accordance with [specify the applicable financial reporting framework]), including the following:
 - Our selection and application of accounting policies is appropriate.
 - All plans or intentions that may materially alter the carrying value or classification of assets and liabilities in the financial statements have been accounted for or disclosed in accordance with the applicable financial reporting framework.

³ Where the auditor reports on more than one period, the auditor adjusts the date so that the letter pertains to all periods covered by the auditor’s report.

- 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 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 noncompliance have been disclosed in accordance with the applicable financial reporting framework.
- All transactions have been recorded.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. ([Proposed] ISA 540 (Revised and Redrafted) (Combined ISA 540-545))
- All events subsequent to the year end for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.
- *[A written representation with regard to related party transactions and the effects of related party relationships will be inserted when proposed ISA 550 (Revised and Redrafted) is finalized.]*
- *[A written representation with regard to related party disclosures in the financial statements will be inserted when proposed ISA 550 (Revised and Redrafted) is finalized.]*
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter. ([Proposed] ISA 450 (Redrafted))

Internal Control

- We acknowledge and understand our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error, and believe that the internal control we have maintained is adequate for that purpose.

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 (Redrafted))
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements. (ISA 240 (Redrafted))

- 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 (Redrafted))
- 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)
- *[A written representation with regard to the completeness of related parties, related party relationships and related party transactions will be inserted when proposed ISA 550 (Revised and Redrafted) is finalized.]*

(Relevant Party)

(Relevant Party)

PROPOSED CONFORMING AMENDMENTS

ISA 200, “Objective and General Principles Governing an Audit of Financial Statements”

- 33a. ISAs are written, and audits are conducted, on the premises that management and, where appropriate, those charged with governance:
- Acknowledge and understand their responsibility for preparing and presenting the financial statements in accordance with the applicable financial reporting framework;
 - Acknowledge and understand their responsibility for designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; and
 - Will provide complete information to the auditor.

ISA 210, “Terms of Audit Engagements”

Agreement on Written Representations

- 5a. **The auditor should obtain the acknowledgement and agreement of management and, where appropriate, those charged with governance that they understand their responsibilities for:**
- **Preparing and presenting the financial statements in accordance with the applicable financial reporting framework;**
 - **Designing, implementing, and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; and**
 - **Providing complete information to the auditor.**
- 5b. ISA 200, “Objective and General Principles Governing an Audit of Financial Statements” explains that audits are conducted on the premises that these responsibilities are acknowledged and understood by management and, where appropriate, those charged with governance. These premises are fundamental to the audit; however, there is a risk that they may not be understood by management or those charged with governance. To avoid misunderstanding, agreement is reached with management and, where appropriate, those charged with governance about their responsibilities as part of agreeing the terms of engagement. Since [proposed] ISA 580 (Revised and Redrafted), “Written Representations” requires the auditor to request written representations about the validity of these premises, it may also be appropriate to make management aware that receipt of such representations from relevant parties will be expected together with specific written representations. It also may be useful to agree with management, or those charged with governance, who the relevant parties are.
- 5c. When management, or those charged with governance, will not make the necessary acknowledgement and agreement, or will not provide the requested general or specific

written representations, 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, however, law or regulation prevents the auditor from refusing an engagement. In these cases, the auditor may need to explain to management and those charged with governance the importance of these matters, and the effect that they may have on the opinion in the auditor's report.



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