

## **IAASB CAG REFERENCE PAPER**

### **IAASB CAG Agenda (September 2007)**

#### **Agenda Item D.1**

#### **Written Representations – Summary of Significant Comments on ED-ISA 580 (Revised and Redrafted) – September 2007 IAASB Agenda Item 2-A**

## **Summary of Significant Comments on ED-ISA 580 (Revised and Redrafted)**

### **Background**

1. 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. Significant proposals were discussed with the IAASB Consultative Advisory Group at all stages of developing the proposed ISA.
2. Significant comments on the exposure draft of proposed ISA 580 (Revised and Redrafted), “Written Representations” (issued December 2006) (ED-ISA 580) are summarized in this paper. Fifty-four comment letters were received. Appendix 2 contains a list of respondents.

### **Summary of Significant Comments and the Task Force’s Recommendations**

#### **Fundamental Premise**

##### *Background*

3. The explanatory memorandum accompanying ED-ISA 580 explained the IAASB’s view that an audit of financial statements in accordance with ISAs is based on the fundamental premise that management acknowledge and understand that they are responsible for (a) the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework; (b) 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 (c) the completeness of information made available to the auditor.
4. Although legislation, the applicable financial reporting framework or custom may establish management’s responsibilities, the extent of those responsibilities may differ across jurisdictions. Accordingly, proposed ISA 200 (Revised and Redrafted), “Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing” was amended to explain that ISAs are written, and audits are conducted, based on the premise.

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5. There is a risk that the premise may not be understood by management. To avoid misunderstanding, proposed ISA 210 (Redrafted), “Agreeing the Terms of Audit Engagements” was amended to require the auditor to obtain the agreement of management that they understand their responsibilities.
6. In addition, ED-ISA 580 required the auditor to request management to provide general written representations about the premise. It also required the auditor to disclaim an opinion on the financial statements if the auditor concluded that such written representations are not reliable or if management does not provide them.
7. The explanatory memorandum accompanying ED-ISA 580 noted the following with regard to the general written representations about the premise:
  - (a) In approving the proposed ISA for public comment, some IAASB members were concerned about the detailed elements of the general written representation about the financial statements (ED-ISA 580.8 and, in particular, those in the third bullet). The majority of the IAASB took the view that the detailed elements were necessary to reinforce the implications of the general written representation about the financial statements. They were of the view that retaining the detailed elements would help to avoid misunderstanding, and thereby improve the quality of the general written representation.
  - (b) All IAASB members agreed that relevant parties should be requested to confirm that they acknowledge and understand their 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 (ED-ISA 580.9).

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 (ED-ISA 580.9). 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 responsibility but be aware of shortcomings in the internal control that may be relevant to the financial statements without informing the auditor. This general written representation is based on relevant parties’ knowledge and belief, having made *appropriate inquiries* to be able to provide such written representation (ED-ISA 580.6). It was not envisaged that such inquiries will entail a comprehensive assessment of the effectiveness of internal control.

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##### *Significant Comments*

8. Some respondents were concerned about the relationship between the premise stated in proposed ISA 200 (Revised and Redrafted) and management's responsibilities prescribed by law or regulation. UK APB, for example, suggested that the terms of the audit engagement should make clear management's responsibilities set out in relevant laws and regulations and, if necessary, establish such further responsibilities as are necessary to enable the audit to be performed.
9. Many respondents were concerned about the detailed elements of the general written representation about the financial statements and, in particular, those listed in the third bullet of ED-ISA 580.8. Many respondents were also concerned about the general written representation about internal control and, in particular, the request for management to confirm whether they believe that the internal control they have maintained is adequate for the purpose. Some respondents were of the view that it was not clear what relevant parties are required to do to provide the general written representation about internal control. They were concerned that management (or their lawyers) may interpret it as requiring a costly comprehensive assessment of internal control before it can faithfully make such a representation.
10. Some respondents also recommended that the description of management's responsibilities in proposed ISAs 200 (Revised and Redrafted), 210 (Redrafted), 580 (Revised and Redrafted) and 700 (Redrafted), "The Independent Auditor's Report on General Purpose Financial Statements" be consistent.
11. See Appendix 1 for a more detailed summary of significant comments on these matters.

##### *Task Force's Recommendation(s)*

12. The Task Force continues to believe that, regardless of management's legal responsibility for the financial statements, the conduct of an audit of financial statements is predicated upon the premise. Therefore, the auditor should request management to provide written representations about the premise. As explained in the section on Audit Evidence below, these written representations are necessary audit evidence. Without them, the auditor does not have sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.
13. The Task Force, however, agrees that proposed ISAs 200 (Revised and Redrafted), 210 (Redrafted), 580 (Revised and Redrafted) and 700 (Redrafted) should describe management's responsibilities, or the premise, relating to management's responsibilities, on which an (the) audit is (has been) conducted, in similar terms.
14. The Task Force debated whether the descriptions should be aligned with the description of management's responsibility for the financial statements in proposed ISA 700 (Redrafted), which was approved by the IAASB in December 2004 when

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extant ISA 700, “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” and related conforming amendments were issued.

15. The Task Force, however, has concerns about the description of management’s responsibility for the financial statements in proposed ISA 700 (Redrafted).

- (a) The Task Force is of the view that the description is not fully aligned with the evaluations and conclusions the auditor takes into account when forming an opinion on the financial statements (as set out in proposed ISA 700 (Redrafted).
- (b) The Task Force is further of the view that “selecting and applying appropriate accounting policies” and “making accounting estimates that are reasonable in the circumstances” are integral parts of the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework. They should therefore not be stated separately.
- (c) The Task Force is also aware that some national auditing standard setters have not adopted extant ISA 700 – some because of the description of management’s responsibility.

The Task Force, therefore, recommends that the description of management’s responsibility in extant ISA 700 be amended (see below).

#### Proposed ISA 200 (Revised and Redrafted)

16. Based on the recommendations in paragraphs 13 and 15, the premise in proposed ISA 200 (Revised and Redrafted) has been rewritten as follows:

“... ISAs are written, and audits are conducted, on the premise that management acknowledge and understand their responsibility:

- (a) For the preparation and presentation of the financial statements<sup>1</sup> in accordance with the applicable financial reporting framework and that this responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements<sup>2</sup> that are free from material misstatement, whether due to fraud or error; and
- (b) To provide the auditor with all the information the auditor requires in connection with the audit of the entity.”

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<sup>1</sup> In the case of a fair presentation framework, management is responsible for the preparation and *fair* presentation of the financial statements in accordance with the financial reporting framework; or the preparation of financial statements *that give a true and fair view* in accordance with the financial reporting framework.

<sup>2</sup> See footnote 1.

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17. Based on the comments, the Task Force also recommends that proposed ISA 200 (Revised and Redrafted) explains that information the auditor requires in connection with the audit of the entity includes:

- Information relevant to the preparation and presentation of the financial statements, such as all records, documentation, and other matters of which management is aware and that may affect the financial statements;
- Any additional information that management is required by law or regulation to provide to the auditor; and
- Any information that the auditor may request from management, such as written representations.

#### **Proposed ISA 210 (Redrafted)**

18. The Task Force recommends that proposed ISA 210 (Redrafted) continue to require the auditor to obtain the agreement of management with regard to their responsibilities. Proposed ISA 210 (Redrafted) should describe management's responsibilities as set out in paragraph 16 above. However, in response to the comments that law or regulation may prescribe management's responsibilities, the Task Force recommends that proposed ISA 210 (Redrafted), in those circumstances, require the auditor to determine the extent to which management's responsibilities prescribed by law or regulation are similar to those set out in proposed ISA 210 (Redrafted). For management's responsibilities that are similar, the auditor may use the wording of the law or regulation to describe those responsibilities in the terms of the audit engagement. For management's responsibilities that are not similar, or that are not prescribed by law or regulation, the auditor is required to use the description of management's responsibilities in proposed ISA 210 (Redrafted).

19. New application material explains that, in some jurisdictions, the accounting profession may consider the similarity of the descriptions of management's responsibilities on behalf of the auditor.

#### **Proposed ISA 580 (Revised and Redrafted)**

20. Based on the comments, and recommendations in paragraphs 13 and 15, the Task Force recommends that the auditor request management to provide the following written representations about the premise:

##### *“Financial Statements*

9. The auditor shall request management to provide a written representation:

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- (a) That they acknowledge and understand their responsibility for the preparation and presentation<sup>3</sup> of the financial statements and that this responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation<sup>4</sup> of financial statements that are free from material misstatement, whether due to fraud or error; and
- (b) Whether, based on their knowledge and belief, the financial statements are prepared and presented<sup>5</sup> in accordance with the applicable financial reporting framework.

#### *Completeness of Information*

- 10. The auditor shall request management to provide a written representation whether, based on their knowledge and belief, they have provided the auditor with all the information the auditor required in connection with the audit of the entity.
- 11. This written representation shall include whether:
  - (a) All transactions have been recorded; and
  - (b) Management has disclosed to the auditor all control deficiencies.”
- 21. As requested by many respondents, the detailed elements of the written representation about the financial statements (ED-ISA 580.8 and, in particular, the third bullet) have been moved to the application material.
- 22. As requested by many respondents, the requirement for the auditor to request management to confirm whether they believe that the internal control they have maintained is adequate for the purpose (ED-ISA 580.9) has been deleted.
- 23. Based on the comments, the auditor is now required to request management to confirm whether, to the best of their knowledge and belief, they have disclosed to the auditor all control deficiencies. The Task Force agreed to use the term “control deficiencies” to avoid creating the impression that management have to classify the deficiencies, for example, as material weaknesses in internal control and reportable deficiencies.

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<sup>3</sup> In the case of a fair presentation framework, management is responsible for the preparation and *fair* presentation of the financial statements in accordance with the financial reporting framework; or the preparation of financial statements *that give a true and fair view* in accordance with the financial reporting framework.

<sup>4</sup> See footnote 3.

<sup>5</sup> In the case of a fair presentation framework: Whether, based on their knowledge and belief, the financial statements *are fairly presented* or *give a true and fair view* in accordance with the applicable financial reporting framework.

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24. The Task Force contemplated whether to require the auditor to request management to confirm whether, to the best of their knowledge and belief, they have disclosed to the auditor all control deficiencies *that, individually or in combination with other control deficiencies, give rise to a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected*. The Task Force agreed not to include the additional text to avoid creating the impression that management have to perform an evaluation of control deficiencies.
25. At present, the written representation about the completeness of the disclosure of control deficiencies to the auditor forms part of the written representation about completeness of information provided to the auditor. It should be noted, however, that the Task Force is of the view that this written representation may be better placed in ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment.”
26. The Task Force also recommends that proposed ISA 580 (Revised and Redrafted) acknowledge that management’s responsibilities may be prescribed by law or regulation. It therefore states that: “If law or regulation prescribes management’s responsibilities, the written representations required about the premise shall be described in the in the manner they are described in the terms of the audit engagement.” New application material explains that proposed ISA 210 (Redrafted) requires the auditor to obtain management’s agreement about their responsibilities as a precondition for accepting the audit engagement. In some jurisdictions, law or regulation may provide for management’s responsibilities which are similar to those set out in [proposed] ISA 210 (Redrafted); although they may be described differently. For those management’s responsibilities that are similar, the auditor may use the wording of the law or regulation to describe them in the terms of the audit engagement.

#### Proposed ISA 700 (Redrafted)

27. The Task Force recommends that proposed ISA 700 (Redrafted) be amended to require the auditor’s report to state that management is responsible for the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework and that this responsibility includes 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.
28. The Task Force also recommends that proposed ISA 700 (Redrafted) acknowledge that management’s responsibilities may be prescribed by law or regulation. It states that: “If law or regulation prescribes management’s responsibilities, the auditor’s report shall describe management’s responsibility for the financial statements in the manner it is described in the terms of the audit engagement.” New application material explains that, in some jurisdictions, law or regulation may provide for

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management's responsibilities which are similar to those set out in [proposed] ISA 210 (Redrafted); although they may be described differently. For those management's responsibilities that are similar, the auditor may use the wording of the law or regulation to describe them in the terms of the audit engagement.

29. The Task Force debated to what extent proposed ISA 700 (Redrafted) should be aligned with the description of management's responsibilities, or the premise, relating to management's responsibilities, on which an (the) audit is (has been) conducted, in the other ISAs. To fully align the ISAs, the section on Management's Responsibility for the Financial Statements in the auditor's report should be re-titled and expanded to state that management is responsible to provide the auditor with all the information the auditor requires in connection with the audit of the entity. Although this information is of value to the auditor, the Task Force was uncertain about its value to readers of the auditor's report. The Task Force agreed to ask the IAASB and the IAASB CAG for their views in this regard.
30. The Task Force also debated whether such statement should be included in the section on management's responsibilities or in the section on the auditor's responsibilities. One approach may be to amend the section on management's responsibilities to rather reflect the premise, relating to management's responsibilities, on which an audit is conducted. Another approach may be to leave the section on management's responsibilities intact and to amend the section of the auditor's responsibilities to include the completeness of information provided to the auditor.

#### **Action Requested:**

- **Does the IAASB support the principle of a consistent description of management's responsibilities, or the premise, relating to management's responsibilities, on which an (the) audit is (has been) conducted, in all relevant ISAs?**
- **Does the IAASB agree with the description of management's responsibilities / the premise?**
- **Does the IAASB agree with the written representations about the premise?**
- **What are the IAASB's views with regard to the written representation about the disclosure of control deficiencies?**
- **Does the IAASB agree that the ISAs should acknowledge that management's responsibilities may be prescribed by law or regulation and that the auditor may use that description in the terms of the audit engagement, written representations and auditor's report to the extent that it is similar to that in the**

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##### ISAs?

- What are the IAASB's views with regard to including in the auditor's report a statement about completeness of information provided to the auditor?

#### Other Written Representations

##### *Background*

31. ED-ISA 580 distinguished between general written representations regarding the premise and specific written representations regarding specific assertions in the financial statements. It also recognized that other ISAs contain requirements and guidance for written representations.

##### *Significant Comments*

32. Few respondents were of the view that ED-ISA 580 was unclear about whether requirements for written representations in other ISAs (such as those included in ISA 240 (Redrafted), "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements," proposed ISA 250, "The Auditor's Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements" and proposed ISA 450 (Revised and Redrafted), "Evaluation of Misstatement Identified during the Audit") are general or specific written representations, and consequently, whether or not a disclaimer of opinion would be appropriate if those written representations are not obtained. See Appendix 1 for a more detailed summary of significant comments on these matters.

##### *Task Force's Recommendation(s)*

33. Based on the comments, the Task Force recommends that the distinction between general and specific written representations be deleted. In addition, the Task Force recommends that:
- (a) The term "written representation" be defined as: "A written statement of management, based on their knowledge and belief, provided to the auditor. Written representations in the context of the ISAs do not include financial statements, the assertions therein, and supporting books and records."
  - (b) New application material explain that written representations include:
    - (i) Confirmation that management acknowledge and understand the premise;
    - (ii) Written representations required by other ISAs; and
    - (iii) Where necessary, written representations about specific assertions of the financial statements which involve management's judgment or intent, or which may not be complete.

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Also see the Task Force's recommendations in the sections on Audit Evidence and Unreliable Written Representations / Refusal to Provide Written Representations.

34. Based on the above, written representations other than those about the premise and those required by other ISAs will be limited to assertions of the financial statements which involve management's judgment or intent, or which may not be complete. The Task Force is of the view that those are the areas where such written representations will most likely to be necessary.

#### **Action Requested:**

**Does the IAASB agree with the recommendation to eliminate the distinction between general and specific written representations and to introduce the distinction in paragraph 33(b) above?**

**Does the IAASB agree with the recommendation to limit written representations, other than those about the premise and those required by other ISAs, to assertions of the financial statements which involve management's judgment or intent, or which may not be complete?**

#### **Audit Evidence**

##### *Background*

35. The explanatory memorandum accompanying ED-ISA 580 explained that audit evidence obtained during the audit may support or contradict the validity of the premise; however, such evidence is not sufficient without obtaining the general written representations about the premise. This is because the auditor may not be able to judge management's knowledge, judgments or intentions solely on other audit evidence.
36. It also explained that 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, ED-ISA 580 required the auditor to obtain written representations regarding specific assertions of 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.
37. In addition, the explanatory memorandum noted that 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

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by themselves and, accordingly, they do not relieve the auditor of the responsibility to obtain other audit evidence.

#### *Significant Comments*

38. Respondents held diverse views as to the status of written representations as audit evidence. Few respondents suggested that the approach in extant ISA 580 (see paragraph 36 above) be re-introduced. See Appendix 1 for a more detailed summary of significant comments on these matters.

#### *Task Force's Recommendation(s)*

39. The Task Force does not agree with the suggestion to re-introduce the approach in extant ISA 580 as it may give rise to over-reliance on written representations. The Task Force is of the view that circumstances in which other audit evidence cannot reasonably be expected to exist should be extremely rare. In such circumstances, the auditor should consider the effect of the inability to obtain sufficient appropriate audit evidence on the opinion in the auditor's report in accordance with proposed ISA 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report."

40. Proposed ISA 500 (Redrafted), "Considering the Relevance and Reliability of Audit Evidence" defines "audit evidence" as all the information used by the auditor in arriving at the conclusions on which the audit opinion is based. Accordingly, the Task Force believes that written representations are audit evidence. Furthermore, the Task Force is of the view that, should written representations not be regarded audit evidence, information gathered through the audit procedure *inquiries* could also not be regarded audit evidence.

41. The Task Force therefore recommends that:

- (a) The Introduction section of proposed ISA 580 (Revised and Redrafted) explain that, based on the description of "audit evidence" in proposed ISA 500 (Redrafted), written representations, similar to responses to inquiries, are audit evidence. They are necessary information that the auditor requires in connection with the audit of the entity. Written representations confirm that management acknowledge and understand the premise, relating to management's responsibilities, on which the audit has been conducted. They also corroborate other audit evidence for specific assertions of the financial statements which involve management's judgment or intent, or which may not be complete.
- (b) The Introduction section also explain that written representations alone, however, do not constitute sufficient appropriate audit evidence about the premise or specific assertions of the financial statements. Furthermore, audit evidence is influenced by its source and nature. The source of a specific written representation is not independent from the entity. Accordingly, written

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representations do not affect the nature or reduce the extent of other audit evidence that an auditor obtains about the premise or specific assertions of the financial statements.

- (c) The application material explain why written representations are *necessary* audit evidence.

42. Proposed ISA 580 (Revised and Redrafted) requires the written representations to be in the form of a representation letter addressed to the auditor. The application material explains that management's signing of the financial statements, or making a written public declaration in relation to the financial statements, is a representation to the users of the financial statements subsequent to the audit; not a representation to the auditor prior to issuance of the auditor's report. Such actions, therefore, do not serve as a substitute for the written representations. The expression of management's responsibilities in law or regulation also does not serve as a substitute for the requested written representations.

#### **Action Requested:**

- Does the IAASB agree with the Task Force's proposal not to re-introduce the approach in extant ISA 580, which 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*?
- Does the IAASB agree that written representations are necessary audit evidence, but that alone they are not sufficient audit evidence?

#### **Unreliable Written Representations / Refusal to Provide Written Representations**

##### *Background*

43. The explanatory memorandum accompanying ED-ISA 580 noted that some IAASB members were concerned about the requirement in ED-ISA 580.19 for the auditor to disclaim an opinion on the financial statements when relevant parties do not provide the general written representations about the premise. Their concern was that this does not allow 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 general written representations.
44. It also noted that the majority of IAASB members, however, were of the view that a failure to provide a specific element of a general written representation would undermine the validity of the general written representation itself. If relevant parties 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

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those circumstances, the auditor would be required to use judgment to evaluate the effect of the modified written representations. ED-ISA 580.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.

#### *Significant Comments*

45. The majority of respondents did not support the proposed requirement for the auditor to disclaim an opinion on the financial statements when the auditor concludes that the general written representations about the premise are unreliable, or when management refuse to provide them. The respondents requested greater flexibility, allowing the auditor to apply professional judgment. See Appendix 1 for a more detailed summary of significant comments on these matters.

#### *Task Force's Recommendation(s)*

46. The majority of Task Force members (see paragraph 55 below) continue to believe that the auditor should disclaim an opinion when the auditor concludes that the written representations about the premise are unreliable or when management refuse to provide them. They are concerned that the lack of a stringent requirement in this regard may lead to different auditors arriving at inconsistent responses in similar circumstances. Their views are reflected below.
47. Management's refusal to provide the written representations about the premise is strong evidence for the auditor that there may be unresolved issues in relation to the financial statements or in relation to the completeness of information provided to the auditor, even when the auditor may have formed the impression up to that point in the audit that the financial statements are appropriate and the information provided by management is complete.
48. Without obtaining the written representations about the premise, the auditor cannot obtain sufficient appropriate audit evidence about completeness because substantive procedures cannot adequately respond to completeness risks. By definition, a lack of completeness is not confinable – that is, a potential misstatement due to a lack of completeness cannot be confined to a defined monetary figure or particular disclosure. Pursuant to proposed ISA 705 (Revised and Redrafted), nonconfinable potential misstatements due to a lack of sufficient appropriate audit evidence are pervasive to the financial statements and therefore lead to a disclaimer of opinion.
49. These Task Force members are of the view that the recommendation to align management's responsibilities, or the premise, relating to management's responsibilities, on which an (the) audit is (has been) conducted, in proposed ISAs 200 (Revised and Redrafted), 210 (Redrafted), 580 (Revised and Redrafted) and 700 (Redrafted), the recommendation to move the detailed elements of the written representation about the financial statements (ED-ISA 580.8 and, in particular, the third bullet) to the application material, and the recommendation to delete from the

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written representation about internal control the reference to the adequacy of internal control (ED-ISA 580.9) address many of the concerns raised by respondents in the context of the requirement to disclaim an opinion when the written representations about the premise are unreliable, or management refuse to provide them (ED-ISA 580.19).

50. Based on the comments, these Task Force members considered the possibility of a rebuttable presumption, but could not identify circumstances that would rebut such a presumption.
51. These Task Force members also considered the effect that unreliable “other written representations,” or management’s refusal to provide them, may have on the auditor’s opinion. They concluded that unreliable written representations required by other ISAs or unreliable written representations about specific assertions of the financial statements, or management’s refusal to provide them, may affect the reliability of the written representations about the premise. For example, the auditor may conclude that the written representation about the completeness of information provided to the auditor is not reliable if the written representations required by ISA 240 (Redrafted) are unreliable, or management refuse to provide them.
52. In light of the above, these Task Force members recommend that proposed ISA 580 (Revised and Redrafted) contain the following requirements:

#### *“Doubt as to the Reliability of Written Representations*

16. If one or more written representation(s) is (are) inconsistent with audit evidence obtained from another source, the auditor shall determine what modifications to or additional audit procedures are necessary to resolve the matter. If the matter remains unresolved, the auditor shall reconsider the assessment of the integrity of management and, where appropriate, those charged with governance, and determine the effect that this may have on the reliability of the other written representations.
17. If the auditor has identified other significant issues relating to management’s competence, communication, integrity, ethical values or diligence, or management’s commitment to or enforcement of these, the auditor shall determine the effect that they may have on the reliability of the written representations.
18. If the auditor concludes that the written representations are not reliable, the auditor shall take appropriate action, including determining the possible effect on the opinion in the auditor’s report in accordance with [proposed] ISA 705 (Revised and Redrafted), “Modifications to the Opinion in the Auditor’s Report,” having regard to the requirement in paragraph 20. Paragraph 20 deals with unreliable written representations about the premise, relating to management’s responsibilities, on which the audit has been conducted.

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##### *Written Representations Not Provided*

19. If management do not provide one or more of the requested written representation(s), the auditor shall:
- (a) Discuss the matter with management and, where appropriate, those charged with governance;
  - (b) Reconsider the assessment of the integrity of management and, where appropriate, those charged with governance and the effect that this may have on the reliability of the other written representations; and
  - (c) Take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with [proposed] ISA 705 (Revised and Redrafted), having regard to the requirements in paragraph 20. Paragraph 20 deals with unreliable written representations about the premise, relating to management's responsibilities, on which the audit has been conducted.

##### *Written Representations about the Premise, relating to Management's Responsibilities, on which the Audit has been Conducted*

20. The auditor shall disclaim an opinion on the financial statements in accordance with [proposed] ISA 705 (Revised and Redrafted) if:
- (a) The auditor concludes that the written representations about the premise, relating to management's responsibilities, on which the audit has been conducted are not reliable; or
  - (b) Management do not provide the written representations about the premise."
53. It is also recommended that the application material continue to explain that a written representation that has been modified from that requested by the auditor does not necessarily mean that management did not provide the written representation. However, the underlying reason for such modification may affect the opinion in the auditor's report.
54. In addition, new application material explains the effect that unreliable "other written representations," or management's refusal to provide them, may have on the auditor's opinion.
55. The Task Force member who does not support the above recommendations is of the following view:
- "General written representations" are made up of two distinct parts: those that are prospective, and those that are retrospective.
  - *Prospective* written representations relate to what is described as the premise; they relate to the overarching responsibility for the preparation and presentation

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of the financial statements in accordance with the applicable financial reporting framework, and to provide the auditor with all the information the auditor requires in connection with the audit of the entity. These are adequately dealt with in proposed ISAs 200 (Revised and Redrafted) and, in particular, 210 (Redrafted).

- *Retrospective* written representations relate to a specific set of financial statements; by definition, these cannot be dealt with in advance of the completion of the preparation and presentation, and the audit, of the financial statements.
- A disclaimer of opinion would be appropriate if management were not willing to make the required retrospective written representations; that is, whether, to the best of their knowledge and belief, the financial statements are prepared in accordance with the applicable financial reporting framework.
- Having made the required prospective representations at the time the engagement letter was signed, it is too much to mandate that the auditor should disclaim in all circumstances where such representations were not made in respect of a given subsequent year. There may be circumstances where absolutely nothing has changed since the engagement letter was signed and so the need to sign a fresh acknowledgement of their responsibilities every year seems to be a mere restatement of what has already been made. “Its absence is not a mortal sin.”

#### **Action Requested:**

- **Does the IAASB agree with the proposal to require a disclaimer of opinion on the financial statements when the auditor concludes that the written representations about the premise is not reliable, or management refuse to provide them?**
- **Does the IAASB agree with the conclusion that unreliable written representations required by other ISAs or unreliable written representations about specific assertions of the financial statements, or management’s refusal to provide them, may affect the reliability of the written representations about the premise?**

#### **Who Should Provide the Written Representations?**

##### *Background*

56. The explanatory memorandum accompanying ED-ISA 580 explained that 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,

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individuals other than management or those charged with governance may have specialized knowledge about specific assertions in the financial statements.

57. ED-ISA 580 therefore defined “relevant parties” as: “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 assertions and are part of the process followed in preparing and presenting the financial statements and assertions therein.” ED-ISA 580 required the auditor to determine relevant parties from whom written representations (both general and specific) should be requested. Relevant parties are requested to provide the written representations based on their knowledge and belief, having made appropriate inquiries to be able to provide such representations.

#### *Significant Comments*

58. Various comments were received on the proposal to use the term “relevant parties.” Respondents asked about the relationship between relevant parties and management, and management and those charged with governance. Some respondents were concerned about requesting individuals other than management, or those charged with governance, to provide written representations. Some respondents asked that the phrase “having made appropriate inquiries for them to be able to provide such representations” in ED-ISA 580.6 be clarified. See Appendix 1 for a more detailed summary of significant comments on these matters.

#### *Task Force’s Recommendation(s)*

59. The Task Force debated the various comments and concluded that written representations should be obtained from those responsible for the preparation and presentation of the financial statements. For the purposes of the ISAs, they are referred to as “management.” [Proposed] ISA 260 (Revised and Redrafted), “Communication with Those Charged with Governance” defines “management” as: “The person(s)<sup>6</sup> with executive responsibility for the conduct of the entity’s operations. For some entities in some jurisdictions, management include some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager. *Management is responsible for the preparation and presentation of the financial statements*, overseen by those charged with governance, and in some cases management is also responsible for approving<sup>7</sup> the entity’s financial statements (in other cases those charged with governance have this responsibility).” The Task Force therefore recommends that references to “relevant parties” be replaced with “management.”

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<sup>6</sup> “Person” in this context could be an organization, e.g., a corporate trustee (i.e., not necessarily a “natural person”).

<sup>7</sup> “Approving” in this context means they have the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared.

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60. The Task Force also concluded that, due to their responsibility for the preparation and presentation of the financial statements, management would be expected to have sufficient knowledge of the process followed by the entity in preparing and presenting the financial statements and assertions thereof on which to base the written representations. The Task Force recommends that this be clarified in the application material and that the phrase “having made appropriate inquiries for them to be able to provide such representations” be deleted.
61. The Task Force also recommends that the application material acknowledge that management may consider it necessary to make enquiries to be able to provide such representations. They may make enquiries from others who are part of the process followed by the entity in preparing and presenting the financial statements and assertions therein, including individuals who have specialized knowledge relating to the matters about which written representations are requested.

#### **Action Requested:**

- **Does the IAASB agree with the proposal to replace the term “relevant party” with “management?”**
- **Does the IAASB agree that management would be expected to have sufficient knowledge on which to base the written representations, but that they may consider it necessary to make appropriate enquiries on which to base the written representations?**

#### **Date of the Written Representations**

##### *Background*

62. The explanatory memorandum accompanying ED-ISA 580 explained that, in accordance with ED-ISA 580.11, the general written representations should be as of the same date as the auditor’s report on the financial statements. ED-ISA 580.13 required 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.
63. The explanatory memorandum also noted that an IAASB member is of the view that the requirement in ED-ISA 580.11 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.

##### *Significant Comments*

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64. Many respondents were of the view that the date of the general written representations should be the same date as the auditor's report. Some respondents, however, were of the view that ED-ISA 580.11 is too prescriptive, and does not adequately reflect how audits are generally completed or recognize the different governance arrangements in different jurisdictions. Some respondents suggested that the requirement be aligned with proposed ISA 560, "Subsequent Events;" that is "as near as practicable to the date of the auditor's report." See Appendix 1 for a more detailed summary of significant comments on these matters.

#### *Task Force's Recommendation(s)*

65. The Task Force is of the view that the auditor cannot obtain sufficient appropriate audit evidence without having obtained the requested written representations. This means that the auditor's opinion cannot be expressed, and the auditor's report cannot be dated, before the date of the written representations. Furthermore, 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 written representations should be dated as near as practicable to, but not after, the date of the auditor's report on the financial statements. The Task Force therefore recommends that proposed ISA 580 (Revised and Redrafted) require the written representations to be dated as near as practicable to, but not after, the date of the auditor's report on the financial statements. Furthermore, the written representations should be for all financial statements and period(s) referred to in the auditor's report.

#### **Action Requested:**

**Does the IAASB agree with the Task Force's recommendation with regard to the date of the written representations?**

#### **Threshold Amount**

#### *Background*

66. The explanatory memorandum accompanying ED-ISA 580 noted that 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 written representations, having given effect to the possibility of immaterial matters aggregating to become material. ED-ISA 580.A16 therefore provided guidance in this regard, indicating that the auditor may consider agreeing the threshold amounts with relevant parties.

#### *Significant Comments*

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67. Some respondents had concerns about the guidance on threshold amounts. They did not understand how the guidance related to the requirements and guidance in proposed ISA 320 (Revised and Redrafted), “Materiality in Planning and Performing an Audit.” Some respondents were of the view that the concept of materiality was dealt with in proposed ISA 320 (Revised and Redrafted), and that it was not necessary, and may even be confusing, to deal with it in the proposed ISA.

#### *Task Force’s Recommendation(s)*

68. The Task Force is of the view that a “threshold amount” is helpful as it allows management to provide written representations without the risk that they would be made responsible for clearly immaterial incidences (whether individually or in aggregate) of departures from the assertions made in the written representations. The amount is significantly less than “tolerable error” determined in accordance with proposed ISA 320 (Revised and Redrafted) but could be similar to the “clearly trivial” threshold referred to in proposed ISA 450 (Revised and Redrafted), “Evaluation of Misstatements Identified during the Audit.” The Task Force therefore recommends that the guidance be amended to indicate that the auditor may consider communicating to management similar threshold when requesting the written representations.

#### **Action Requested:**

**Does the IAASB agree with the Task Force’s recommendation with regard to the guidance on threshold amounts? Or should the guidance be deleted as suggested by some respondents?**

#### **Small Entities**

69. A few respondents highlighted considerations specific to the audit of small entities. See Appendix 1. To address some of these concerns, the Task Force recommends the following new application material: “Subject to the legal or ethical requirements in a jurisdiction, management of a small entity may request the auditor to prepare the financial statements of that entity. In such a case, written representations about the financial statements are particularly important because management may not acknowledge and understand their responsibility for the preparation and presentation of the financial statements. To ensure that the written representations are meaningful, the auditor may consider explaining these matters to management when agreeing the terms of engagement (see [proposed] ISA 210 (Redrafted)) and when requesting the written representations. Furthermore, the auditor is not an appropriate party of whom management could make inquiries regarding the written representations.”

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##### **Action Requested:**

**Does the IAASB agree with the Task Force’s recommendation with regard to small entities?**

##### **Public Sector Entities**

70. A small number of respondents highlighted considerations specific to the audit of public sector entities (see Appendix 1). These comments contained conflicting views with regard to the appropriateness of the Consideration Specific to Public Entities in ED-ISA 580.A11. The Task Force recommends that the matter be referred to the relevant group of the Financial Audit Guidelines Subcommittee of the Professional Standards Committee of INTOSAI.

##### **Action Requested:**

**Does the IAASB agree with the Task Force’s recommendation with regard to public sector entities?**

##### **Additional Proposed Conforming Amendment**

71. At present, the application material to the requirement for the auditor to request a written representation about the financial statements notes that the written representation may also include a representation about events subsequent to the period end. In ED-ISA 580, this was part of the detailed elements of the general written representation about the financial statements. That is, it was a requirement.

72. The Task Force (and a few respondents to the exposure draft) is of the view that this should be a requirement of proposed ISA 560 (Redrafted), “Subsequent Events.” The Task Force agreed to recommend this to the IAASB.

##### **Action Requested:**

**The IAASB is requested to consider whether to recommend to the ISA 560 Redrafting Task Force to include a requirement for the auditor to request a written representation about subsequent events in proposed ISA 560 (Redrafted).**

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## Appendix 1

### Summary of Significant Comments

#### Fundamental Premise

1. EC supported including the fundamental pre-requisites for an audit in ISAs. It also understood the need for the auditor to confirm such pre-requisites with management. However, EC was of the view that the statement of management's responsibilities, and the general written representations obtained by the auditor, *should not go beyond the mere confirmation of essential corporate responsibilities, as established by laws or regulations, or agreed upon between the company and the auditor.*
2. UK APB was of the view that the terms of engagement should make clear management's responsibilities set out in relevant laws and regulations and, if necessary, establish such further responsibilities as are necessary to enable the audit to be performed. It was doubtful of the value, in terms of audit evidence, of the auditor obtaining the general written representations at the end of the audit, confirming that these responsibilities have been fulfilled. However, should such general written representations be obtained, the wording thereof should be consistent with those established in the terms of engagement. (CBI also noted that it would be helpful if the proposed ISA could be drafted in a way that gives recognition to national legal and regulator requirements.)
3. ICAEW noted that the requirements of ED-ISA 580 assumed that the premise has been agreed, but that was not the case. It noted that such premise is important, but that its development requires extensive consultation, possibly as part of a project on the conceptual framework of an audit. It was of the view that the level of specificity in ED-ISA 580, coupled with the potential for conflict between its requirements and laws and regulations in many jurisdictions, mean that there is significant risk that some jurisdictions may feel compelled to carve out parts of the ISA before adopting it.
4. EALIC was of the view that the objective of auditing standards should only be to establish auditors' responsibilities, not those of companies, which are established by specific law and regulation, as well as the applicable financial reporting framework. Therefore, statements of compliance, and most other general written representations, should not be included in representation letter, all the more so as they may be incompatible with existing law and regulation, in particular in Europe. EALIC was further of the view that the general written representations should be limited to the elements that are necessary to express an audit opinion. Companies' responsibility in relation to the audit is to make available to the auditor the audit evidence necessary to draw conclusions on which to base the audit opinion. It is *not* to corroborate audit evidence obtained by the auditor; or to provide acknowledgement and agreement that management and, where appropriate, those charged with governance, acknowledge

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and understand their responsibilities for preparing and presenting the financial statements.

5. CICA, DTT, EC, IRBA and UK APB noted that there should be consistency of statements on management's responsibilities between ISA 200, ISA 210, ISA 580 and ISA 700, "The Independent Auditor's Report on General Purpose Financial Statements."

#### *General Written Representation about the Financial Statements*

6. Although there was some support for the detailed elements of the general written representation about the financial statements, the majority of respondents did not support it, or suggested that it be changed in one way or another.
7. Comments relating to ED-ISA 580.8 included the following:
  - CEBS was of the view that matters that management should take full responsibility for or for which auditors could obtain sufficient appropriate audit evidence (e.g., the appropriateness of the selection and application of accounting policies) should not be required in the general written representation.
  - UK APB doubted whether it will be practicable for relevant parties to give the general written representation "whether all transactions have been recorded" without qualification or identifying numerous minor exceptions. (CIMA was of a similar view.) UK APB was of the view that, at the very least, there should be a materiality consideration. (EC was of a similar view.)
  - UK APB was of the view that specifying requirements on the conditional basis of "where relevant," does not aid clarity. (IRBA was of a similar view.) Where necessary in the judgment of the auditor, such matters can be addressed by specific written representations. (ACCA, FEE and ICAEW were of similar views.) ACCA, Basel Committee, BDO, CEBS, CIPFA, CNCC, EC, ICAI, ICPAK, NAO, PWC and SNAO supported the IAASB minority view that the sub-bullets of the third bullet of ED-ISA 580.8 should be moved to the application material. EALIC suggested that the third bullet be deleted. DTT believed that the sub-bullets would be more appropriately placed with the general written representation about the completeness of information made available to the auditor.
  - EC suggested that ED-ISA 580.8 be expanded to include relevant parties' responsibility for making accounting estimates that are reasonable in the circumstances. It also suggested that ED-ISA 580.8 provide for the flexibility necessary to modify the general written representation on the basis of the legal environment, and to allow for the addition of items, where relevant for the audit, based on contractual obligations.

#### *General Written Representation about Internal Control*

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8. Although there was some support for relevant parties confirming whether they believe that the internal control they have maintained is adequate for preparing and presenting financial statements that are free from material misstatement, the majority of respondents did not support it or suggested that it be changed in one way or another.
9. Some respondents were of the view that it is not clear what relevant parties are required to do to provide the general written representation about internal control. They were concerned that management (or their lawyers) may interpret it as requiring a costly comprehensive assessment of internal control before it can faithfully make such a representation. (ACCA, BDO, CBI, CEBS, CIMA, CIPFA, CNCC, EALIC, FEE, ICAS, ICAEW, JICPA, MEDEF, NAO, PWC, UK APB)
10. EC was of the view that, to avoid confusion and disruption in the conduct of statutory audits, the IAASB should allow full reliance by the auditor on the applicable laws and regulations in relation to the responsibilities of management, or those charged with governance, with respect to internal control. (Basel Committee, BDO, CEBS, FEE, IOSCO and IRBA were also concerned about how this requirement would interact with specific laws and regulations). EC noted that inconsistencies between the wording of those laws and regulations and the wording of the general written representation are likely to give rise to disputes as to the appropriateness of the written representation being requested and a reluctance to provide it. (Basel and NAO noted similar concerns.) ICAEW was of the view that such inconsistencies may result in carve-outs of the proposed ISA.
11. CNCC, DTT, EALIC, FEE, ICAEW, JICPA and KPMG suggested that the requirement be limited to a general written representation that relevant parties 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. (BDO, however, noted that there may be circumstances when auditors may wish to request such a written representation. However, to allow for laws and regulations, and the application of auditor judgment as to when this type of written representation would be appropriate, it suggested that the written representation about the adequacy of internal control be moved to the application material. (ICAEW and IOSCO suggested a similar alternative.))
12. PWC suggested that the general written representation focus on the adequacy of the entity's books and records and whether they provide a sufficient basis to be able to conduct the audit. (ICAS was of a similar view). PWC was of the view that it is the books and records that provide necessary evidence in order to be able to form an opinion on the financial statements; whereas, the auditor may or may not choose to obtain evidence about the operating effectiveness of many of the controls. Focusing the written representation on the books and records would also have the advantage of more closely paralleling auditors' mandates in many jurisdictions.

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13. CICA suggested that the auditor request a written representation about whether management has disclosed to the auditor all deficiencies in internal control of which they are aware that, individually or in combination with other deficiencies, give rise to a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected.” (BDO and IOSCO suggested a similar alternative.)

#### **Audit Evidence**

14. Respondents held diverse views as to the status of written representations as audit evidence. Comments included the following:
- IOSCO noted that ED-ISA 580 appropriately emphasizes that written representations, by themselves, do not constitute sufficient appropriate audit. It suggested that more explanation be provided about the inherent limitations of written representations and why they cannot substitute other audit evidence gathered by the auditor.
  - EALIC, IRBA and NIVRA were of the view that the approach in extant ISA 580 should be re-introduced. CBI also considered the requirements of extant ISA 580 satisfactory and sufficient in the area of general written representations.
  - ACAG (other than NAO) and AG-NZ did not believe that the general written representations provide “necessary audit evidence” (ED-ISA 580.7). Rather they corroborate the validity of the premise – as set out in the objective in ED-ISA 580.3.
  - EC strongly doubted whether the general written representations should be regarded as audit evidence. It was of the view that the general written representations are valuable documentation which, if not obtained, should raise the alertness of auditors (ED-ISA 580.18) and entail appropriate, proportionate reactions.
  - AUASB was of the view that ED-ISA 580 was unclear about whether requirements for written representations in other ISAs (such as those included in ISA 240 (Redrafted), “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements,” ISA 250, “Consideration of Laws and Regulations in an Audit of Financial Statements” and proposed ISA 450 (Revised and Redrafted), “Evaluation of Misstatement Identified during the Audit”) are general or specific written representations, and consequently, whether or not a disclaimer of opinion would be appropriate if those written representations are not obtained. (CNCC and DTT were of similar views.)

#### **Unreliable Written Representations / Refusal to Provide Written Representations**

15. Although there was some support for the proposal, the majority of respondents did not support it or suggested that it be changed in one way or another. The respondents

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requested greater flexibility, allowing the auditor to apply professional judgment. Comments included the following:

- PWC was of the view that the proposal fails to reflect the reality of an audit where there is ongoing dialogue between management and the auditor that will influence the auditor's judgment on the significance of management's reluctance to provide a specific element of the general written representations. Management's reaction to the request for general written representations will reflect the particular circumstances of the engagement, and differing cultures, laws and regulations. It is undoubtedly important to explore management's reasons for not providing a written representation, and to give careful consideration as to the appropriate action to be taken in response. Whilst a disclaimer of opinion is one of the actions that would be considered, it may not be the only appropriate response in all circumstances. What is important is for the auditor to gain an understanding of the reasons why management is reluctant to provide a specific element of the general written representations, and to be satisfied that management's response is not indicative of possible underlying issues, bringing into question the reliability of management's other specific written representations. (ACAG, ACCA, AG-NZ, Basel, CEBS, CIMA, HKICPA, IOSCO and MEDEF were of similar views. ACAG, AG-NZ and NZICA favored the more principles-based approach of ED-ISA 580.18.)
- FEE was of the view that the auditor should disclaim an opinion when the auditor *judges* that, in accordance with proposed ISA 705 (Revised and Redrafted), he/she has not obtained sufficient appropriate audit evidence on which to base the auditor's opinion, and the possible effects on the financial statements of that inability are considered both material and pervasive. The proposed ISA should recognize that there may be circumstances in which a failure to obtain the general written representations need not necessarily lead to a disclaimer of opinion; that is, where the balance of other audit evidence is sufficient to support the auditor's opinion. FEE was of the view that the need for a disclaimer of opinion should be regarded as a possibility rather than a necessity. (CIPFA, CNCC, EALIC, ICAS and UK APB were of similar views.) FEE suggested that ED-ISA 580.19 be re-written as follows: "..., the auditor shall consider whether, in view of the lack of reliable written representation, sufficient appropriate audit evidence has been obtained, and determine whether the possible effects on the financial statements are material and pervasive. If the auditor decides that these effects are indeed material and pervasive, in accordance with ISA 705, [...], the auditor shall disclaim an opinion on the financial statements." (FAR SRS, IBR-IRE and NAO made similar suggestions.)
- AUASB did not believe that a disclaimer of opinion should be the only recourse available when an auditor is unable to obtain any of the *detailed elements of the general written representation included in ED-ISA 580.8*. It was of the view that

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some flexibility is needed to enable the auditor to judge the seriousness of the scope limitation in deciding whether a qualified opinion or a disclaimer of opinion will be more appropriate. (EALIC, ICAS and JICPA were of similar views.)

- IRBA noted that written representations serve only as *corroborating* evidence. ED-ISA 580.19, however, implies that the general written representations are not corroborating evidence but *conclusive* evidence. It believed that a disclaimer of opinion will only be appropriate if the written representations are considered to be conclusive evidence. If it is corroborating evidence, the auditor should be able to perform alternate procedures, and a disclaimer of opinion may not be the only outcome.
- BDO suggested that ED-ISA 580.19 be reworded so as to prescribe a rebuttable presumption of a disclaimer of opinion. (CIPFA and EC made similar suggestions.)

#### Date of the Written Representations

16. Approximately 20 respondents were of the view that the date of the general written representations should be the same date as the auditor's report. Comments of respondents that did not support the proposal, or suggested that the proposal be changed, included the following:

- ACAG, AG-NZ, CIMA, CIPFA, EC, FEE, ICAEW, ICAS, ICJE, NAO and NIVRA were of the view that ED-ISA 580.11 is too prescriptive (or needs to be more flexible); and does not adequately reflect how audits are generally completed or recognize the different governance arrangements in different jurisdictions.
- ACAG and AG-NZ suggested that ED-ISA 580.11 be changed to reflect that the general written representations should be dated on or before the date of the auditor's report, but after the date on which those charged with governance approve the financial statements. Where they are obtained before the date of the auditor's report, the auditor should perform sufficient appropriate procedures to cover the time between receipt of the representations and the date of the auditor's report.
- UK APB believed that it would be more appropriate to align the date of the general written representations with the date that management approve the financial statements. (CPA Ireland and SNAO were of similar views.) UK APB suggested that the application material indicate that, if there is any delay between the date of the general written representations and the date of the auditor's report, the auditor may consider it necessary to take action to confirm that the representations remain valid or obtain further representations regarding the intervening period. (CIPFA, NAO and NIVRA made similar suggestions.)

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- ACCA suggested that ED-ISA 580.11 be aligned with ISA 560, “Subsequent Events,” so that the requirement is worded in terms of “as near as practicable to the date of the auditor’s report.” (AUASB, CIMA, CNCC, ICAEW, ICAS and NAO made similar suggestions.)
- EYG and FAR SRS noted that extant ISA 580 indicates that the management representation letter would “ordinarily be dated the same date as the auditor’s report.” This recognizes that, although the management representation letter will usually be dated the same date as the auditor’s report, there are occasions when the auditor may need to exercise judgment in accepting a representation letter dated a day or two before the auditor’s report is signed. They did not believe that it is necessary for the proposed ISA to be more prescriptive than extant ISA 580, and suggested reverting to the wording of extant ISA 580.

#### Who Should Provide the Written Representations?

##### *Related Parties vs. Management*

17. Basel Committee was concerned about footnote 2 in ED-ISA 580<sup>8</sup> and how it relates to the definition of “management.” It noted that the terms “management” and “relevant parties” were used in ED-ISA 580.7 in different ways, which may lead one to conclude that the terms have two different meanings. In most cases, however, “relevant parties” seemed equivalent to “management.”
18. IRBA was of a similar concern. It noted that the term “relevant parties” can be interpreted in one of two ways: (1) “Relevant parties” form part of management, which raises the question as to the purpose of distinguishing between management and relevant parties; or (2) “Relevant parties” do not form part of management, which raises the question as to the reason why relevant parties are responsible for written representations regarding the preparation and presentation of the financial statements and the assertions therein.

##### *Management vs. Those Charged with Governance*

19. ACAG and AG-NZ were of the view that the emphasis on requesting written representations from management is inappropriate. They noted that it is established practice to request written representations from those charged with governance. (NZICA confirmed this practice.) If those charged with governance are not able to provide the requested written representations based on their knowledge and experience, they will make appropriate enquiries of officers and others who also perform senior managerial functions. ACAG and AG-NZ were of the view that this approach is conceptually sound as it seeks written representations from those who are

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<sup>8</sup> Footnote 2 reads as follows: “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.”

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ultimately responsible for the financial statements, and also recognizes the formal governance structure within an entity.

20. NZICA noted that, according to ED-ISA 580, management are those responsible for the financial statements, which would seem to imply the body charged with governance, but that this was not seen to be that body in most cases (from the phrase in the conforming amendments to ISA 210, which read “management, *and where appropriate, those charged with governance*”). It was also of the view that the definition of “management” in the extant Glossary of Terms conflicts with the proposed requirements, guidance and conforming amendments.<sup>9</sup> It suggested that the term “management” be replaced with “party responsible for approval of the financial statements.”

#### *Individuals Other Than Management and Those Charged With Governance*

21. Audit Commission was concerned that the width of the definition of “relevant parties” (read with ED-ISA 580.A2) may lead to potential inconsistency in the identification of relevant parties from whom the auditor requests written representations. It was also concerned that the wider definition could lead to significant increases in written representations and potential delays for the audit, without providing additional value in terms of audit assurance.
22. UK APB was concerned that extending the scope of “relevant parties” to individuals below the level of management and those charged with governance detracts from the overriding responsibilities of management and those charged with governance for the financial statements. Both UK APB and ICAEW were of the view that management should ensure that they have made enquiries of relevant parties before they sign the representation letter. (CNCC was of a similar view.) ICAEW suggested that management acknowledge that they have made such enquiries in the letter as part of their general responsibilities for the financial statements.
23. EC suggested that specific written representation from parties other than those with direct responsibility for the financial statements be provided *together with* a written representation from the relevant parties with direct responsibility for the financial statements. Providing specific written representations in isolation runs the risk that “individuals with specialized knowledge” will not take all relevant information into consideration.
24. FEE suggested that “individuals who have specialized knowledge” co-sign the written representation with those who have responsibility for the financial statements. (CNCC made a similar suggestion.)

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<sup>9</sup> The extant Glossary explains that “management” “comprises officers and others who also perform senior managerial functions. Management includes those charged with governance only in those instances when they perform such functions.”

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##### *Making Appropriate Inquiries (ED-ISA 580.6)*

25. EALIC was of the view that an auditing standard should not result in management being obliged to make appropriate inquiries to provide the written representations requested by the auditors. When written representations are provided by relevant parties, this can be done only “to the best of their knowledge” (or belief). EALIC noted that this is consistent with the wording used in similar circumstances (e.g., the European Transparency Directive and Prospectus Regulation).
26. GT suggested that the IAASB clarify its intent with regard to the phrase “having made appropriate inquiries for them to be able to provide such representations.” It was of the view that relevant parties could obtain the knowledge necessary to provide written representations in various ways. It also noted that the proposal seems to impose a requirement for relevant parties to make such inquiries, while it is the auditor that should inquire of relevant parties how they have obtained the knowledge on which their written representations are based when assessing the reliability of such representations.
27. IOSCO noted that it is arguable whether a relevant party would in all cases have to make an inquiry. The relevant party may know the information necessary to be able to make the requested written representation.

##### **Small Entities**

28. Few respondents highlighted considerations specific to the audit of small entities. They included:
- EYG noted that, in smaller entities where the auditor may have had greater involvement in advising the entity during the preparation of the financial statements, a relevant party may consider it appropriate to make inquiries of the auditor regarding internal control and the fair presentation of the financial statements. This could possibly lead to a situation where the auditor is being asked to make representations about the same matters for which the auditor is requesting representations. EYG suggested additional application material that clarifies that the auditor is independent and is therefore not an appropriate party of whom to make inquiries regarding the written representations. FSR supported additional application material in this regard for audit of small entities.
  - IRBA noted that ED-ISA 580 has not tracked how the guidance contained in the International Auditing Practice Statement (IAPS) 1005, “The Special Considerations in the Audit of Small Entities,” has been incorporated. Particular attention was drawn to the guidance in paragraph 18 of the appendix to the IAPS. (That paragraph reads as follows: “In the audit of a small entity, it is particularly important for the auditor to obtain management representations in which the owner-manager acknowledges responsibility for the fair presentation of the financial statements. This is particularly necessary where the auditor has prepared

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the financial statements, because of the danger of the auditor's role and responsibility in relation to the financial statements being misunderstood. In order to ensure that the representations are meaningful, the auditor considers explaining these matters to management before the representations are obtained.”)

- CICA was concerned that the reference “management's commitment to competence” in ED-ISA 580.14, 16-18 and A18 may be understood to require auditors of many small entities to frequently disclaim opinions on financial statements. For example, some smaller entities may rely on their auditors to prepare journal entries (subject to management's approval) regarding complex areas of accounting and to help draft notes to the entity's financial statements. This might be misinterpreted as management not having a commitment to competence.
- ACCA did not agree with restricting the form of written representations to a representation letter, when other forms are equivalent. It was of the view that, as other forms of written representation are common in the audit of smaller entities, the change will impose disproportionate costs for no valid reason.
- NZICA noted that there is no application material relating to small entities. It is more likely to be those entities where obtaining the general representations is particularly important as the relevant party may not have a good understanding of their responsibilities.

#### **Public Sector Entities**

29. Few respondents highlighted considerations specific to the audit of public sector entities. They included:

- IRE noted that, in the public sector, it might be a difficult task to trace which party constitutes “management.” It suggested that a clear definition of those charged with management be developed.
- Referring to ED-ISA 580.A11, ANAO was of the view that is not appropriate to make general written representations in relation to the perceived broader objectives of public sector financial statement audits, since those objectives are not relevant to the (fair) presentation of the statements as a whole. Specific written representations may be appropriate where management is required to attest to such considerations in their financial statements. (AUASB, CIPFA, NAO and NZICA, on the other hand, specifically supported the guidance in ED-ISA 580.A11.)
- ANAO also noted that public sector auditors are sometimes required to mention in their auditor's report on the financial statements, by exception, matters not forming part of, or directly related to, the content of the financial statements that come to their attention during the conduct of the audit (and therefore not forming

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part of the auditor's opinion). It is not clear that it would be reasonable to seek representations from management in these circumstances.

- ACAG was of the view that the notion of having threshold amounts is not appropriate in the public sector context. This is because public sector audits must take into account different values that are applied to instances of fraud, internal controls and management responsibilities.

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### Appendix 2

#### List of Respondents

1	100 Group	One Hundred Group of Finance Directors
2	AICPA	American Institute of Certified Public Accountants
3	ACCA	The Association of Chartered Certified Accountants
4	APB	Auditing Practices Board (United Kingdom)
5	Auditor-General, NZ	Office of the Auditor-General of New Zealand
6	ACAG	Australasian Council of Auditors-General
7	Au AASB	Australian Government, Auditing and Assurance Standards Board
8	Audit Commission	Audit Commission
9	Basel	Basel Committee on Banking Supervision
10	BDO	BDO Global Coordination B.V
11	BG Group	BG Group
12	CICA	The Canadian Institute of Chartered Accountants
13	CMA Canada	CMA Canada
14	CPA Ireland	Institute of Certified Public Accountants in Ireland
15	CIMA	Chartered Institute of Management Accountants
16	CIPFA	Chartered Institute of Public Finance and Accountancy
17	CEBS	Committee of European Banking Supervisors
18	CNCC-CSOEC	Compagnie Nationale des Commissaires aux Comptes + Conseil Supérieur de l'Ordre des Experts-Comptables
19	CPAB	Canadian Public Accountability Board

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20	DnR	Den Norske Revisorforening
21	DTT	Deloitte Touche Tohmatsu
22	EALIC	European Association of Listed Companies
23	EYG	Ernst & Young Global
24	EC	European Commission
25	FEE	Federation des Experts Comptables Europeens
26	FSR	Foreningen af Statsautoriserede Revisorer
27	FARSRS	FARSRS
28	GT	Grant Thornton International
29	HKICPA	Hong Kong Institute of Certified Public Accountants
30	IDW	Institut der Wirtschaftsprüfer
31	IBR-IRE	Institut des Reviseurs d'Entreprises/ Instituut der Bedrijfsrevisoren
32	ICJCE	Instituto de Censores Jurados de Cuentas de España
33	ICPAK	Institute of Certified Public Accountants of Kenya
34	ICPAS	Institute of Certified Public Accountants of Singapore
35	ICAEW	The Institute of Chartered Accountants in England and Wales
36	ICAI India	The Institute of Chartered Accountants of India
37	ICAP	Institute of Chartered Accountants of Pakistan
38	ICAS	The Institute of Chartered Accountants of Scotland
39	ICAZ	The Institute of Chartered Accountants of Zimbabwe
40	IRBA	Independent Regulatory Board for Auditors
41	JICPA	The Japanese Institute of Certified Public Accountants

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42	KPMG	KPMG
43	MAZARS & GUERARD	Mazars & Guerard
44	MEDEF	Mouvement des Entreprises de France
45	NAO	National Audit Office
46	NZICA	New Zealand Institute of Chartered Accountants
47	NIVRA	Koninklijk Nederlands Instituut van Registeraccountants (Royal NIVRA)
48	PwC	PricewaterhouseCoopers
49	Provincial Auditor-SK	Provincial Auditor Saskatchewan
50	SNAO	Swedish National Audit Office
51	WAO	Wales Audit Office
52	ZICA	The Zambia Institute of Chartered Accountants
53	CBI	Confederation of British Industry
54	IOSCO	International Organization of Securities Commissions