



International Federation of Accountants

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Agenda Item **B.2**

Committee: IAASB Consultative Advisory Group

Meeting Location: Basel

Meeting Date: March 3-4, 2008

Report Back and Update—Written Representations

Objectives of Agenda Item

1. At the September 20-21, 2007 CAG meeting, Representatives discussed proposed final ISA 580 (Revised and Redrafted)¹ and related conforming amendments to proposed ISA 200 (Revised and Redrafted),² proposed ISA 210 (Redrafted)³ and proposed ISA 700 (Redrafted).⁴ The objective of this Agenda Item is to provide a brief report back on the proposals of Representatives at that meeting.
2. The IAASB approved ISA 580 (Revised and Redrafted) as a final standard at the December 2007 IAASB meeting. The IAASB is awaiting confirmation from the Public Interest Oversight Board that due process has been followed in developing the standard; after which it will be published.
3. The IAASB also approved an exposure draft of proposed ISA 210 (Redrafted) in December 2007. The conforming amendments to proposed ISA 200 (Revised and Redrafted) and proposed ISA 700 (Redrafted) form part of that exposure draft. The IAASB acknowledges that responses to the exposure draft may give rise to conforming amendments to ISA 580 (Revised and Redrafted).

Report Back – September 20-21, 2007 CAG Proposals

4. Below are extracts from the minutes of the September 20-21, 2007 CAG meeting⁵ related to the discussion of the proposed final ISA 580 (Revised and Redrafted), and an indication of how the IAASB Task Force or the IAASB responded to the Representatives' comments.

¹ ISA 580 (Revised and Redrafted), "Written Representations."

² 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."

³ Proposed ISA 210 (Redrafted), "Agreeing the Terms of Audit Engagements."

⁴ Proposed ISA 700 (Redrafted), "The Independent Auditor's Report on General Purpose Financial Statements."

⁵ The minutes will be approved at the March 2008 IAASB CAG meeting.

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Representatives' comments	IAASB Task Force/IAASB response
The Representatives commented as follows:	
FUNDAMENTAL PREMISE	
<ul style="list-style-type: none"> Mr. Morris, reporting on behalf of the IAASB CAG Working Group, indicated that the Working Group agrees with the revised description of the fundamental premise and the related conforming amendments to proposed ISA 200 (Revised and Redrafted) ..., proposed ISA 210 (Redrafted) ..., and proposed ISA 700 (Redrafted) Ms. Blomme and Messrs. Rabine and Ray supported the revised premise. 	Representatives' comments were supportive in this area.
<ul style="list-style-type: none"> Referring to the conforming amendment to proposed ISA 200 (Revised and Redrafted), Mr. Gutterman noted that it is not necessary to refer both to the fact that ISAs are written in the context of the premise and the fact that audits are conducted based on the premise. 	Paragraph 8 of proposed ISA 200 (Revised and Redrafted) now reads as follows: "Accordingly, although ISAs do not impose responsibilities on management or those charged with governance, and do not override laws and regulations that govern their responsibilities, an audit in accordance with ISAs is conducted on the premise that management and, where appropriate, those charged with governance have responsibility ..."
<ul style="list-style-type: none"> Mr. Pickeur was concerned about the fact that the auditor is required to use the description of management's responsibilities in the premise if law or regulation does not prescribe similar responsibilities. He was of the view that management cannot be forced to sign a representation letter that describes responsibilities for management that are different from those prescribed by law or regulation. Mr. Damant explained that the requirement is necessary to fill "gaps" between management's responsibilities described in the premise and those prescribed by law or regulation. Mr. White was of the view that the proposed amendment to the exposure draft 	Paragraph 11 of proposed ISA 210 (Redrafted) provides for the auditor to use the wording of the law or regulation to describe those responsibilities that the auditor has determined are equivalent in effect to those set out in proposed ISA 210 (Redrafted). For management's responsibilities that are not equivalent in effect, or that are not prescribed by law or regulation, the auditor is required to use the description in the proposed ISA. In addition, paragraph 12 of ISA 580 (Revised and Redrafted) and paragraph 23a of proposed ISA 700 (Redrafted) require that management's responsibilities be described in the manner they are described in the terms of the audit engagement.

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should address Mr. Pickeur’s concern.	
<ul style="list-style-type: none"> Mr. Ray noted that the proposed ISA places a responsibility on the auditor to judge the similarity of management’s responsibilities described in the premise and those prescribed by law or regulation. Mr. Fogarty noted that the word “similar” in this context means that management’s responsibilities prescribed by law or regulation cover the same aspects as those described in the premise. Mr. Fogarty suggested that the Task Force consider whether the word “similar” is strong enough and whether it is the right word. 	<p>Paragraph 11 of proposed ISA 210 (Redrafted) now refers to “responsibilities that are equivalent in effect.”</p>
<ul style="list-style-type: none"> Referring to management’s responsibility “to provide the auditor with all the information the auditor requires in connection with the audit of the entity,” Mr. Scicluna asked whether it is the information that the auditor requires or the information that the auditor requests. Is management expected to know what information the auditor requires? Mr. Rabine had a similar question. Mr. Fogarty explained that, if the responsibility is limited to information that the auditor requests, management may withhold relevant information on the basis that the auditor has not requested it. Ms. Blomme suggested that this aspect of the premise be read in the context of the requirement for the auditor to obtain a written representation about the completeness of information. Mr. Fogarty suggested that the Task Force consider developing additional application material in this regard. 	<p>The IAASB agreed that the matter should be clarified. Paragraph 8 of proposed ISA 200 (Revised and Redrafted) now reads as follows: “... management and, where appropriate, those charged with governance have responsibility ... (b) to provide the auditor with:</p> <ol style="list-style-type: none"> All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements; Any additional information that the auditor may request from management and, where appropriate, those charged with governance; and Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.
<ul style="list-style-type: none"> Mr. Ju suggested that the reference to “audit of the entity” be replaced with “audit of the financial statements.” Mr. Fogarty agreed. 	See response to preceding proposal.
OBJECTIVE	
<ul style="list-style-type: none"> Ms. Sucher was concerned about the word 	The IAASB agreed to eliminate the term, and

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<p>“corroborate” in the objective and elsewhere. She was of the view that the word is too strong; it does not reflect the nature of the evidence obtained through written representations. Mr. Damant noted that the word “corroborate” will be difficult to translate.</p>	<p>redrafted paragraph 6(b) of ISA 580 (Revised and Redrafted) as follows: “<i>To support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of written representations if determined necessary by the auditor or required by other ISAs ...</i>”</p>
<p>WRITTEN REPRESENTATIONS</p>	
<ul style="list-style-type: none"> Mr. Morris noted that the Working Group has trouble understanding why the distinction between general and specific written representations was eliminated. He also noted that it is not clear whether the auditor will obtain only one representation letter. 	<p>At the meeting, Mr. Fogarty explained that, in response to comments on the exposure draft, the proposed ISA now refers to written representations about the premise, written representations required by other ISAs, and written representations about assertions of the financial statements which involve management’s judgment or intent, or which may not be complete. It is hoped that the proposed ISA will lead auditors to reduce the number of requested written representations. The intention is to obtain one representation letter; however, additional letters are not prohibited.</p> <p>(Note: Subsequent to the CAG meeting, the IAASB agreed that written representations about assertions of the financial statements should not be limited to those which involve management’s judgment or intent, or which may not be complete. Paragraph 13 of ISA 580 (Revised and Redrafted) now refers to written representations that the auditor determines is necessary to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements.)</p>
<p>UNRELIABLE WRITTEN REPRESENTATIONS / REFUSAL TO PROVIDE WRITTEN REPRESENTATIONS – DISCLAIMER OF OPINION</p>	
<ul style="list-style-type: none"> Ms. Sucher noted that the amendments to the proposed ISA address some of the concerns about the requirement to disclaim an opinion when the auditor concludes that the written representations about the premise are not reliable or management does not provide such representations. However, 	<p>The IAASB continued to hold the view that the auditor’s conclusion that there is sufficient doubt about the integrity of management such that the written representations about its responsibilities are not reliable should give rise to a disclaimer of opinion. Furthermore, management’s refusal to</p>

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<p>she continues to believe that the auditor should apply professional judgment rather than automatically disclaim an opinion in the described circumstances.</p>	<p>provide the written representations about its responsibilities is strong evidence for the auditor that there may be unresolved issues in relation to the financial statements, or in relation to the 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.</p> <p>Without obtaining reliable written representations about management's responsibilities, the auditor cannot obtain sufficient appropriate audit evidence about completeness because substantive procedures in the context of an audit of financial statements cannot adequately respond to completeness risks. 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),⁶ 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.</p> <p>The IAASB considered the possibility of a rebuttable presumption, but could not identify circumstances that would satisfactorily rebut such a presumption.</p> <p>The IAASB was of the view that lack of a stringent requirement may lead to different auditors arriving at inconsistent responses in similar circumstances. It was also of the view that the following amendments address many of the concerns raised in the context of the requirement to disclaim an opinion in the specified circumstances:</p> <ol style="list-style-type: none">1. The revision and alignment of the description of management's responsibilities in the proposed ISAs.2. The split between obtaining the agreement of management that it acknowledges and
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⁶ Proposed ISA 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report."

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	<p>understands its responsibilities in proposed ISA 210 (Redrafted) and requesting management to confirm that it has fulfilled those responsibilities in ISA 580 (Revised and Redrafted).</p> <ol style="list-style-type: none">3. The move of the detailed elements of the written representation about the financial statements to the application and other explanatory material in ISA 580 (Revised and Redrafted).4. The deletion of the written representation about the adequacy of internal control in ISA 580 (Revised and Redrafted). <p>In addition, the IAASB revised the requirement to clearly link it to the written representations about management's responsibilities. Paragraph 20 of ISA 580 (Revised and Redrafted) requires the auditor to disclaim an opinion on the financial statements if:</p> <ol style="list-style-type: none">1. The auditor concludes that there is sufficient doubt about the integrity of management such that the written representations about management's responsibilities (i.e., those required by paragraphs 10 and 11 of the ISA) are not reliable; or2. Management does not provide the written representations about management's responsibilities (i.e., those required by paragraphs 10 and 11 of the ISA). <p>The IAASB also restructured and redrafted the text of ISA 580 (Revised and Redrafted) so that it is clear that the requirements that deal with doubt as to the reliability of written representations (paragraphs 16-18 of the ISA) and written representations not provided by management (paragraph 19 of the ISA) apply to all written representations. Accordingly, if the auditor concludes that other written representations are not reliable, or if management does not provide them, the auditor is required to take appropriate action; this includes determining the possible effect on the opinion in the auditor's report in accordance with proposed ISA 705 (Revised and Redrafted) (see paragraphs 18 and 19(c) of the ISA).</p>
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<ul style="list-style-type: none"> Mr. Rabine asked whether the IAASB has assessed the potential effect that the proposed requirement may have on auditors' reports in the European Union. 	<p>At the meeting, Mr. Fogarty responded that such an assessment has not been undertaken. However, the comments on the exposure draft and comments from other sources indicated that (1) permitting a description of management's responsibilities in line with those prescribed by law or regulation, to the extent that they are similar, and (2) deleting the detailed elements of the written representations about the premise will reduce the number of disclaimer of opinions. The proposed final ISA takes account of these proposals.</p>
<ul style="list-style-type: none"> Mr. Rabine responded that in theory the requirement appears to be fair; however, from a regulatory perspective it needs to be asked how many disclaimers of opinion will be issued based on the requirement. 	<p>At the meeting, Mr. Kellas noted that, irrespective of the outcome of such an assessment, auditors will not be able to express an opinion when written representations about the premise are unreliable or when management does not provide them.</p>
OTHER	
<ul style="list-style-type: none"> Mr. Koktvedgaard suggested that the paragraph requiring the written representation about the completeness of information to include whether all transactions have been recorded and whether management has disclosed to the auditor all control deficiencies be amended to indicate that the representation is based on management's knowledge and belief. Mr. Fogarty agreed. 	<p>Paragraph A7 of ISA 580 (Revised and Redrafted) provides the following guidance: <i>"In some cases, management may include in the written representations qualifying language to the effect that representations are made to the best of its knowledge and belief. It is reasonable for the auditor to accept such wording if the auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations."</i></p>
<ul style="list-style-type: none"> Mr. Sekiguchi asked why the date of the written representations about the premise could not be the same as the date of the auditor's report. 	<p>At the meeting, Mr. Fogarty responded that the Task Force did not consider permitting different dates for written representations about the premise and other written representations. He was of the view that this will increase the complexity of the requirement. In response to comments on the exposure draft, the requirement was amended to refer to a date "as near as practicable to, but not after, the date of the auditor's report."</p>
<p>Mr. Damant noted that overall the Representatives</p>	<p>The input from the CAG was very valuable in</p>

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appear to be satisfied with the way in which the exposure draft was amended to respond to comments.	developing the ISA. The support of the CAG Chair is appreciated.
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Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Available from
<http://www.ifac.org/IAASB/Meeting-Resource.php?MID=0093&type=Updated+Agenda>

December 2007 IAASB Agenda Item 6-C (Updated)
– ISA 580 (Revised and Redrafted)

Available from
<http://www.ifac.org/Guidance/EXD-Details.php?EDID=0105>

Exposure Draft of Proposed ISA 210 (Redrafted) and
Related Conforming Amendments to Proposed ISA
200 (Revised and Redrafted and Proposed ISA 700
(Redrafted) (published in December 2007)