



International Federation of Accountants

545 Fifth Avenue, 14th Floor, New York, NY 10017 USA

Tel +1 (212) 286-9344 Fax +1 (212) 286-9570 www.ifac.org

Agenda Item

2

Committee: IAASB

Meeting Location: Brussels

Meeting Date: July 10-13, 2006

Written Representations

Objectives of Agenda Item

To discuss the issues raised by CAG representatives at the CAG meeting in May 2006 and the task force's recommended dispositions of the issues and to obtain views of the IAASB.

Task Force Members

The members of the Task Force are:

John Fogarty (Chair)	IAASB Member
Josef Ferlings	IAASB Member (Assisted by Technical Advisor Wolfgang Böhm)
Vijaya Moorthy	INTOSAI Representative
Sylvia Smith	IAASB Technical Advisor

Activities since Last IAASB Discussions

At the March 2006 meeting, the task force presented a first read draft of the proposed ISA (Revised and Redrafted). The IAASB asked the task force to consider its comments and present a second read draft at the July 2006 meeting.

In May 2006, the draft and related issues were discussed at a CAG meeting. CAG representatives raised certain important issues. The task force met in New York to discuss the CAG's comments and held a telephone conference to discuss the next steps. The task force concluded that the comments made by the CAG representatives and the recommended dispositions should be submitted to the IAASB for consideration to obtain directions for the next draft of the proposed ISA. In this paper, the issues raised by the CAG representatives are categorized as follows:

- Effect of obtaining of written representations on the auditor's responsibility to obtain sufficient appropriate audit evidence.
- Appropriateness of effectively "establishing" management's responsibilities in an auditing standard.
- The meaning of "failure" to obtain general written representations.
- The meaning of "materiality" in relation to written representations.

Issues Presented to the IAASB for Consideration**EFFECT OF OBTAINING OF WRITTEN REPRESENTATIONS ON THE AUDITOR'S RESPONSIBILITY TO OBTAIN SUFFICIENT APPROPRIATE AUDIT EVIDENCE**

Some CAG representatives were concerned that the proposed standard identifies written representations as audit evidence. They viewed this as a means of enabling auditors to rely on representations received and to reduce the amount of additional evidence that needs to be obtained during the audit.

The task force believes that written representations from management are an important part of the evidence that the auditor needs to obtain in order to opine on the financial statements. General representations are particularly important because they provide written confirmation to the auditor that management has accepted and fulfilled its responsibilities relating to the preparation and presentation of the financial statements. Accordingly, in the rare circumstances where the auditor is unable to obtain the necessary general representations, the auditor will not be in a position to express an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence.

However, the task force is also of the view that even though written representations are an essential component of audit evidence they in themselves do not meet the criteria of sufficient (quantity) appropriate (quality measured in terms of relevance and reliability) audit evidence. Accordingly, the fact that the auditor is able to obtain the necessary written representations from management does not enable the auditor to reduce the amount of evidence that is otherwise necessary to be obtained in order to conclude on the financial statements. The auditor's decisions in this respect are based on the result of risk assessment procedures. In order to remove any doubt about representations somehow reducing audit work, the task force proposes to amend the proposed ISA to clarify that representations on their own do not meet the criteria of sufficient appropriate audit evidence and that obtaining representations does not reduce the audit work that would otherwise have been performed by the auditor.

Matter(s) for consideration by the IAASB:

Does the IAASB agree with the task force's conclusions?

APPROPRIATENESS OF EFFECTIVELY "ESTABLISHING" MANAGEMENT'S RESPONSIBILITIES IN AN AUDITING STANDARD

Some CAG representatives raised concerns that the proposed ISA is effectively establishing responsibilities that are already addressed by laws and regulations around the world. These representatives thought this would be of concern if the ISA can be interpreted as implying that the responsibilities set out in such laws and regulations are somehow incomplete or deficient.

The task force agrees that management's responsibilities under the law should be established only by applicable political and legal processes in each jurisdiction and not through creation of auditing standards. The task force further believes that:

- When the auditor requests general representations, management is being asked by the auditor whether they acknowledge and have fulfilled their responsibilities.

- Irrespective of what the applicable legal responsibilities may be, there are certain fundamental matters that underpin an audit as outlined in the general representations.

Accordingly, the intent of the general representations in the proposed ISA is to establish whether the basis for conducting an audit has been met by management. The task force believes that the ISA must contain a requirement to obtain general representations in order to have a basis for conducting an audit. The task force intends to redraft the ISA to be clear that the auditor obtains representations about management's acknowledgement and fulfillment of responsibilities. The task force believes this should be sufficient to address concerns about "establishing" management responsibilities.

Matter(s) for consideration by the IAASB:
--

Does the IAASB agree with the task force's conclusions?

THE MEANING OF "FAILURE" TO OBTAIN GENERAL WRITTEN REPRESENTATIONS

Some CAG representatives noted that the requirement for the auditor to withdraw from the engagement or issue a disclaimer may not be necessary. The arguments included the following:

- Inability to obtain general written representations may not give rise to a scope limitation in all circumstances, for example, where only one general written representation is omitted. The auditor should be allowed to exercise professional judgment.
- Failure to obtain the general representation about whether all the uncorrected misstatements were immaterial in cases where the entity agrees that the financial statements are materially misstated should not result in a disclaimer because there should be a departure qualification.

The task force believes that, where management refuses to provide one or more general written representations, the auditor has not obtained audit evidence in relation to management's fulfillment of its responsibilities and to the completeness of the information provided to the auditor. This evidence cannot be obtained by other means and the auditor would not be able to evaluate the pervasiveness of the effects or possible effects of the refusal. In such circumstances, the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion and the possible effects could be pervasive. These circumstances require a disclaimer of opinion (see close off ISA 705.52).

Further, the task force also believes that, even in those circumstances where the auditor issues a disclaimer, the auditor should report any material misstatements known to the auditor in the report. The fact that management refused to confirm the fulfillment of its responsibilities in relation to the financial statements and/or completeness of the information provided to the auditor should be described in the Basis for Disclaimer of Opinion paragraph.

The task force remains of the view that the auditor should not express an audit opinion on financial statements for which management is not willing to take responsibility or provide the other general representations. The task force agrees, however, that additional guidance should be provided for the meaning of "failure to obtain required written representations." For example if management represented that there were material misstatements of the financial statements instead of representing that all known misstatements were immaterial, the representation about the financial statements would have been obtained and there would be a qualified opinion rather than a disclaimer of opinion.

Matter(s) for consideration by the IAASB:

Does the IAASB agree with the task force's conclusions?

THE MEANING OF "MATERIALITY" IN RELATION TO WRITTEN REPRESENTATIONS

The task force is of the view that, in the context of the proposed ISA, the auditor may reach an understanding with relevant persons on "materiality" for the purposes of written representations. The materiality for purposes of written representations is lower than materiality for planning and performing the audit. Written representations should be limited to matters that are, either individually or collectively, "material" in the context of written representations. It is likely that such "materiality" would be different for different written representations. In addition, the auditor recognizes that for certain matters, such as fraud, the auditor's considerations do not involve materiality. To document the understanding reached by the auditor and relevant persons on materiality, the auditor may wish to discuss the "materiality" for purposes of written representations in the written representations letter.

The task force recognized, however, that use of the term "material" in the context of written representations may lead to confusion as to the meaning of such "materiality." Therefore, the task force proposes to use the term "threshold amount" instead.

Matter(s) for consideration by the IAASB:

Does the IAASB agree with the Task Force's conclusions on "materiality" for purposes of written representations?

Action Requested

The IAASB is asked to provide direction to the task force on the issues described and conclusions proposed.