



International Federation of Accountants

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Agenda Item

7

Committee: IAASB
Meeting Location: London
Meeting Date: December 4-8, 2006

Proposed Revised ISA 580

Objective of the Agenda Item

1. To approve the proposed ISA 580 (Revised), “Written Representations” for issue as an Exposure Draft.

Task Force Members

2. The members of the Written Representations Task Force are as follows:

John Fogarty (Chairman)	IAASB Member
Joseph Ferlings	IAASB Member (assisted by Wolfgang Böhm, IAASB Technical Advisor)
Vijay Moorthy	INTOSAI Representative
Sylvia Smith	IAASB Technical Advisor

Background and Activities Since Last IAASB Meeting

3. At its October 2006 meeting, the IAASB considered a draft revised ISA 580. The main issues discussed were as follows:
 - The use of the term “assumptions” in the stated objective, and in the proposed conforming amendment to ISA 200, “Objective and General Principles Governing an Audit of Financial Statements.”
 - The need to clarify the degree of flexibility the auditor has with respect to obtaining the general written representations.
 - Whether the concept of “fulfilling responsibilities” is appropriate, in particular with respect to internal control.
 - The clarity of the auditor’s response to unreliable, or refusal by relevant persons to provide, written representations.
4. The Task Force has considered these issues and revised the proposed ISA in response to comments received. The Task Force’s responses are described below. A number of other drafting suggestions have also been incorporated in the proposed revised ISA.

Matters for IAASB Consideration

USE OF “ASSUMPTIONS”

5. In October, the IAASB expressed concern with the use of the term “assumptions” in the stated objective, and in the conforming amendment to ISA 200. In particular, it was noted that “assumptions” appeared to be matters the auditor negotiated with management.
6. The Task Force has replaced the term “assumptions” with the phrase “premises upon which an audit is conducted.” The proposed conforming amendment to ISA 200 has also been reworded to better reflect that the premises are inherent to the performance of an audit, rather than aspects that an auditor or an entity may choose.

DEGREE OF FLEXIBILITY THE AUDITOR HAS WITH RESPECT TO OBTAINING THE GENERAL WRITTEN REPRESENTATIONS

7. The IAASB had considerable discussion about the degree to which the representations listed in paragraph 6 of the proposed revised ISA could be modified and still comply with the requirement to obtain general written representations. The outcome of the discussion was that the Task Force would consider ways to introduce some flexibility in application without losing the substance of the requirement.
8. The Task Force has reworded the requirement in paragraph 6 so as not to appear to be the exact required wording of the representations. Also, the requirement leading into the bullet list of representations related to the financial statements clearly mentions that they are to be included *where relevant*.
9. In addition, the sentence at the end of paragraph 6 that mentions the requirements for representations in other ISAs states that these are requirements for *general representations*. Accordingly, these representations are required in order to cover the three premises upon which an audit is conducted.

FULFILLMENT OF RESPONSIBILITIES

10. The IAASB expressed concerns about what “fulfillment” of responsibilities meant and, in particular, about “fulfillment” of responsibilities with respect to internal control. Concern about the latter related to whether relevant persons would in effect be required to assess the effectiveness of internal control in order to make the representation.
11. The Task Force has revised the draft to remove the term “fulfilled”, replacing it with more specific wording related to internal control, financial statements, and completeness of information:
 - For internal control, the representation relates to: “internal control relevant to the preparation and presentation of the financial statements.” The aspect that relates to the effectiveness of internal control now reads as follows: “...and believe that the internal control they have maintained has been sufficient for that purpose.” This wording removes the implication that a special assessment would be needed to make a representation about whether the responsibility to design, implement and maintain internal control has been fulfilled.

- For the financial statements representations, “fulfilled” has been replaced with a representation that “...the financial statements are [fairly] presented in accordance with the financial reporting framework.”
- The representations related to completeness of information simply state that all information has been provided.

12. Two task force members expressed concern about removing the reference to the “fulfillment” of responsibilities.

THE AUDITOR’S RESPONSE TO UNRELIABLE, OR THE REFUSAL BY RELEVANT PERSONS TO PROVIDE, WRITTEN REPRESENTATIONS

13. In October, the IAASB asked that the Task Force clarify the auditor’s response to unreliable, or refusal by relevant persons to provide, written representations.

14. The Task Force has revised the draft ISA 580 as follows:

- To present separately the discussion of the reliability of written representations, and the refusal by relevant persons to provide written representations.
- To explain further that issues about the reliability of written representations may relate to inconsistency with other audit evidence or matters related to commitment to competence, communication and enforcement of integrity and ethical values, or due care. If general written representations about the premises upon which an audit is conducted are not reliable, then the auditor is required to follow the guidance in ISA 705 dealing with the circumstances where there is a pervasive scope limitation.
- If relevant persons refuse to provide requested written representations, to require the auditor to ask why and reconsider the assessment of the integrity of the management.
- To add new application guidance (paragraph A16) to address conditions under which the auditor might withdraw from the engagement.

Action Requested

Does the draft respond to the issues raised at the October IAASB meeting appropriately?

Material Presented (Note: Agenda Item 7-A will be used for purposes of the discussions at the meeting.)

Agenda Item 7-A Proposed Revised ISA 580 (Clean)
(Pages 3075 – 3088)

Agenda Item 7-B Proposed Revised ISA 580 (Mark-up from October IAASB Meeting)
(Pages 3089 – 3104)

Action Requested

The IAASB is asked to consider the above issues and recommendations, and to approve the proposed revised ISA 580 for exposure.

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