

**PROPOSED INTERNATIONAL STANDARD ON AUDITING 580  
(REVISED)****WRITTEN REPRESENTATIONS****(Clean)****CONTENTS**


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## **Introduction**

### **Scope of this ISA**

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to obtain written representations, evaluating the reliability of such representations, and actions to be taken if relevant persons refuse to provide requested written representations.

### **Effective Date**

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

### **Objective**

3. The objective of the auditor is to corroborate, by means of written representations, other audit evidence regarding:
  - (a) The premises upon which an audit is conducted in respect of management's responsibilities; and
  - (b) Specific assertions embodied in the financial statements.

### **Definitions**

4. For purposes of the ISAs, the following terms have the meanings attributed below:
  - (a) Written representations – Written statements provided by relevant persons to the auditor at the auditor's request. Written representations are either general or specific. Written representations in the context of this ISA do not include financial statements, the assertions therein, and supporting books and records. Written representations are made to the best of relevant person's knowledge and belief having made necessary inquiries.
  - (b) General written representations – Written representations regarding premises upon which an audit is conducted related to management's responsibilities.
  - (c) Specific written representations – Written representations regarding specific assertions embodied in the financial statements.
  - (d) Relevant persons – Parties responsible for preparing and presenting financial statements and assertions therein. Ordinarily, management is the party responsible for preparing and presenting the financial statements and the assertions therein. In some circumstances, however, other individuals or bodies, such as those charged with governance, are also responsible. Regarding specific assertions, relevant persons may also include individuals who have specialized knowledge about those specific assertions and are part of the process followed in preparing the financial statements and assertions therein.
  - (e) The premises upon which an audit is conducted – Those fundamental responsibilities of management and, where appropriate, those charged with governance that underlie the conduct of an audit, and that are assumed in writing ISAs. They are explained in ISA 200, "Objective and General Principles Governing an Audit of Financial Statements."

## Requirements

### Relevant Persons

5. The auditor shall determine the relevant persons from whom general and, where appropriate, specific written representations shall be requested. (Ref: Para. A1-A3)

### General Written Representations

6. In themselves, general written representations do not constitute sufficient appropriate audit evidence. Accordingly, they do not relieve the auditor of the responsibility to obtain other audit evidence. However, they do provide audit evidence essential for the performance of an audit about the premises upon which an audit is conducted in respect of management's responsibilities. To obtain such evidence, the auditor shall obtain written representations from relevant persons about internal control, the financial statements, and the completeness of information provided to the auditor for all financial statements and periods covered by the auditor's report, as follows:

#### Internal control

- (a) Whether relevant persons acknowledge and understand their responsibility for designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error, and believe that the internal control they have maintained has been sufficient for that purpose.

#### Financial Statements

- (b) Whether relevant persons acknowledge and understand their responsibility for preparing and presenting financial statements and believe that the financial statements are [fairly] presented in accordance with the applicable financial reporting framework; the representations shall include that the selection and application of accounting policies are appropriate and that the following matters, where relevant, have been appropriately treated in the financial statements:
  - Plans or intentions that may affect the carrying value or classification of assets and liabilities;
  - Liabilities, both actual and contingent;
  - Defects in title to assets, and liens or encumbrances on assets, and assets pledged as collateral;
  - Aspects of contractual agreements that may affect the financial statements, including non-compliance;
  - Complete recording of transactions; and
  - Events subsequent to the period end for which the applicable financial reporting framework requires adjustment or disclosure.

### Completeness of Information

- (c) Whether relevant persons believe that all records, documentation, unusual matters of which they are aware, and other information relevant to the audit have been made available to the auditor.

Other ISAs require the auditor to obtain additional general written representations that are included in the categories above. These ISAs are listed in Appendix 1 and example wording is included in the illustrative representation letter in Appendix 2. (Ref: Para. A4-A11, and A15)

7. The written representations shall be in the form of a representation letter addressed to the auditor as of the same date as the auditor's report.

### Specific Written Representations

8. The auditor shall determine whether specific written representations in relation to specific assertions in the financial statements, particularly with respect to matters involving judgment, intent or completeness, are necessary. A specific written representation, however, is not sufficient appropriate audit evidence by itself and, accordingly, does not relieve the auditor of the responsibility to obtain other audit evidence. (Ref: Para. A12-A14, and A15)
9. The auditor shall determine whether it is necessary to obtain an updated specific written representation if the specific written representation is as of a date earlier than that of the auditor's report.

### Evaluating the Reliability of Written Representations

10. If the auditor has unresolved doubts about the reliability of one or more written representations, the auditor shall reconsider the reliability of other written representations. Such doubt may exist because the written representation:
- is inconsistent with other audit evidence; or
  - there are identified significant issues related to commitment to competence, communication and enforcement of integrity and ethical values, or due care.
11. When a written representation is inconsistent with other audit evidence, the auditor shall determine the reasons for the inconsistency and take appropriate action.
12. When the auditor identifies significant issues related to management's commitment to competence, communication and enforcement of integrity and ethical values, or due care, the auditor shall assess the effect of these issues on the reliability of written representations and take appropriate action. Where an identified significant issue related to management's commitment to competence, communication and enforcement of integrity and ethical values, or due care exists and the auditor concludes that a written representation is reliable, the auditor shall document the reasons for the conclusion. (Ref: Para. A16)
13. If the auditor concludes that the general written representations about internal control, the financial statements, or the completeness of information provided to the auditor are not reliable, the premises upon which an audit is conducted related to management's

responsibilities are not appropriate and the auditor shall follow the requirements in paragraphs 15 and 16.

### **Refusal to Provide Requested Written Representations**

14. Where relevant persons refuse to provide requested written representations, the auditor shall ask for the reasons, reconsider the assessment of the integrity of management and, where appropriate, those charged with governance, and take appropriate actions including determining the possible effects on the auditor's report.
15. If relevant persons do not provide appropriate general written representations about the premises upon which an audit is conducted, as described in paragraph 6, the auditor is unable to obtain sufficient appropriate audit evidence. The possible effects on the financial statements of the inability to obtain appropriate written general representations are pervasive. Therefore, in accordance with ISA 705, "Modifications to the Opinion in the Independent Auditor's Report," the auditor shall disclaim an opinion on the financial statements.
16. If the auditor is unable to obtain an appropriate specific written representation that the auditor considers necessary, this constitutes a scope limitation and the auditor shall follow the requirements of ISA 705.

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### **Application and Other Explanatory Material**

#### **Relevant Persons** (Ref: Para. 5)

- A1. To identify the relevant persons for general written representations, it is important to consider the governance structure of the entity, relevant legislation, and circumstances of the engagement. Relevant persons include the entity's chief executive officer and chief financial officer or other equivalent persons in entities that do not use such titles. There may, however, be other relevant persons or bodies, for example members of the board of directors or supervisory board. Where uncertainty exists as to the identity of relevant persons, it may be necessary for the auditor to agree with the engaging party, prior to the engagement acceptance, who the relevant persons are.
- A2. The auditor applies professional judgment in identifying relevant persons to make specific written representations. In addition to management, the auditor may also identify other relevant persons for particular specific written representations who have specialized knowledge relating to specific assertions embodied in the financial statements and are part of the process management follows in preparing and presenting the financial statements and assertions therein. For example:
  - An entity may employ an actuary who has responsibility for and specialized knowledge about actuarially determined accounting measurements.
  - Staff engineers may have responsibility for environmental liability measurements.
  - Internal counsel may provide information essential to provisions for legal claims.
- A3. As discussed in ISA 210, "Terms of Audit Engagements," the auditor may have agreed with management who the relevant persons are.

**General Written Representations** (Ref: Para. 6)

- A4. Legislation, the financial reporting framework, or custom may establish relevant persons' responsibility for preparing and presenting the financial statements and for the assertions therein. However, the extent of this responsibility and accountability may differ across jurisdictions. Despite these differences, an audit is premised upon relevant persons' responsibilities related to the design, implementation and maintenance of internal control, the preparation and presentation of the financial statements, and the completeness of information to be provided to the auditor. Throughout the audit, the auditor obtains audit evidence that allows the auditor to determine whether these premises can be used in conducting the audit. However, such evidence is not sufficient without obtaining general written representations from relevant persons, because their knowledge or intentions may not be available from other audit evidence. For example, an auditor could not conclude that all relevant information has been provided without asking whether all such information had been provided.
- A5. The expression of relevant persons' responsibilities in law and the signing of financial statements by the relevant persons do not, of themselves, provide sufficient other audit evidence, or serve as a substitute for the written representations required by this ISA.
- A6. Requesting representations about important matters is an effective auditing procedure for a number of reasons. A refusal by relevant persons to provide the requested representations may alert the auditor to possibly significant issues. Further, the requirement to make representations in written, rather than oral, form is likely to cause the relevant persons to pay greater attention to such matters. Having to make general written representations reinforces relevant persons' responsibilities in relation to the financial statements and the audit, and prompts them to consider specific issues more thoughtfully. Obtaining a representation letter may be particularly useful where there is a need to clarify the relevant persons' understanding of the premises that underlie an audit.
- A7. General written representations relating to the relevant persons' responsibility for (a) the design, implementation and maintenance of internal control, and (b) the completeness of information, are relevant for all audits. However, some general representations relating to the relevant persons' responsibility for preparing and presenting the financial statements may not always be relevant. For example, written representations relating to liabilities may not be necessary where the financial statements were prepared and presented on a cash basis, in accordance with the applicable financial reporting framework.
- A8. All periods covered by the auditor's report need to be covered by the general written representations and applicable specific written representations because relevant persons need to reaffirm that the representations they previously made with respect to prior periods remain appropriate. The auditor and relevant persons may agree to a form of representation letter that updates previous representations by addressing whether there are any changes to such representations and, if so, what they are.
- A9. Situations may arise where management or other relevant persons who were in place during the period being audited are not in place at the time the written representations are needed. Such persons may assert that they are not in a position to make some or all of the requested representations because they were not in place during the period, but this does

not diminish the relevant persons' responsibilities. Accordingly the auditor's requirement to obtain written representations from these relevant persons is not affected.

- A10. [Proposed] ISA 260, "Communication with Those Charged with Governance," paragraph 14 (c) (iii), requires the auditor to communicate with those charged with governance the representations the auditor requested from relevant persons. In some circumstances, it may be appropriate for the auditor to request that the representation letter also be agreed by those charged with governance to ensure that all those charged with governance agree with the written representations that the auditor considers essential to forming an opinion on the financial statements.

*Considerations Specific to the Public Sector*

- A11. Because of the broader mandate often applicable for audits of public sector entities than those of other entities, the objectives of an audit of public sector entities may give rise to the need for additional general written representations. These may include the following:
- General written representations acknowledging economy, efficiency and effectiveness of programs, projects and other activities.
  - General written representations on the existence of the internal audit function that is appropriate for the size of the entity and its activities.
  - General written representations pertaining to the auditor's evaluation of the entity's risk assessment systems.

**Specific Written Representations** (Ref: Para. 8)

- A12. In some circumstances, the auditor may conclude that a specific written representation is necessary to corroborate other audit evidence, particularly where intent is involved. For example, when auditing the valuation of investments where management's intent is crucial to the accounting treatment, it may not be possible to obtain sufficient appropriate audit evidence without a specific written representation from relevant persons in relation to their intentions.
- A13. Evaluating intent is inherently subjective, and therefore uncertain. In some cases, the auditor may obtain audit evidence supporting or inconsistent with relevant persons' assertions by considering matters directly or indirectly linked to the assertion. When evaluating relevant persons' judgments and intentions the auditor may consider one or more of the following:
- The entity's past history in carrying out its stated intentions.
  - The entity's reasons for choosing a particular course of action.
  - The entity's ability to pursue a specific course of action.
  - The existence or lack of any other information that might have been obtained during the course of the audit that may be inconsistent with management's judgment or intent.
- A14. The reliability of audit evidence is influenced by its source and nature. Because the source is not independent, a specific written representation does not by itself provide sufficient appropriate audit evidence. For example, a written response to a specific

inquiry in relation to the cost of an asset is not a substitute for the audit evidence of such cost that the auditor would ordinarily expect to obtain.

**Threshold Amounts** (Ref: Para. 6 and 8)

A15. In some circumstances, the auditor may decide that it would be more effective if general and specific written representations were limited to matters above threshold amounts established by the auditor for the purposes of such representations, having given effect to the possibility of immaterial matters aggregating to become material. Accordingly any such threshold amount will be relatively small in relation to materiality. For this purpose, the auditor may consider agreeing on the threshold amounts with relevant persons. Threshold amounts may vary with different written representations. Threshold amounts are not relevant to written representations concerning overall responsibilities such as for internal control. Likewise it may not be appropriate to subject some matters to a threshold amount because of qualitative considerations. For example it may not be appropriate to limit representations about matters related to fraud to a threshold amount.

**Evaluating the Reliability of Written Representations** (Ref: Para 12)

A16. In the event that the auditor identifies issues related to management's commitment to competence, communication and enforcement of integrity and ethical values, or due care, appropriate action may include discussing the matter with those charged with governance and, where possible, withdrawing from the engagement unless those charged with governance put in place appropriate corrective measures. Such action may not be sufficient, however, to enable the auditor to issue an unmodified audit opinion.

**Appendix 1**  
(Ref: Para. 6)

**List of ISAs Containing General Written Representation Requirements**

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

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

ISA 450, “Evaluation of Misstatements Identified during the Audit” – paragraph 16 (Close off document)

ISA 540 (Revised), “Auditing Accounting Estimates and Related Disclosures (Other Than Those Involving Fair Value Measurements and Disclosures)” – paragraph 101 (Close off document)

ISA 545, “Auditing Fair Value Measurements and Disclosures” – paragraph 63.

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

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

### **Example of a General Written Representation Letter**

The following letter includes general written representations required by this and other ISAs in effect December 31, 2006. It is assumed in this example that there are no exceptions to the requested representations. If there were exceptions, the letter would need to be modified accordingly to reflect the exceptions. Where the auditor determines that one or more specific written representations are sufficiently important, the auditor may conclude that the inclusion thereof in the representation letter is appropriate. Although such inclusion of specific written representations on a variety of matters may serve to focus relevant persons' attention on those matters, and thus cause the relevant persons to specifically address those matters in more detail than would otherwise be the case, the auditor needs to be aware of the limitations of specific written representations as audit evidence as set out in this ISA.

(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the financial statements of ABC Company for the year ended December 31, 20XX<sup>1</sup> for the purpose of expressing an opinion as to whether the financial statements [give a true and fair view][are presented fairly, in all material respects,] in accordance with the applicable financial reporting framework. We confirm, to the best of our knowledge and belief, having made inquiries as necessary, that:

#### *Internal Control*

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

#### *Financial Statements*

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

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<sup>1</sup> Where the auditor reports on more than one period, the auditor adjusts the date so that the letter pertains to all periods covered by the audit report.

- All liabilities, both actual and contingent, have been recorded and, where appropriate, disclosed in accordance with the applicable financial reporting framework.
- The entity has satisfactory title to, or control over, all assets disclosed in the financial statements and, where appropriate, all liens or encumbrances on these assets have been disclosed in accordance with the applicable financial reporting framework.
- We have complied with the aspects of contractual agreements that could have a material effect on the financial statements and instances of non-compliance have been disclosed as required by the applicable financial reporting framework.
- All transactions have been recorded.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable; and, for fair value measurements and disclosures, they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures (ISAs 540 (Revised) and 545).
- All events subsequent to period end for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.
- The information we have provided regarding the identity of the entity's related parties and its related party relationships and transactions is complete and accurate (Proposed ISA 550 (Revised and Redrafted)).
- Related party transactions and the effects of related party relationships have been appropriately accounted for and the financial statements reflect the economic substance of these relationships and transactions (Proposed ISA 550 (Revised and Redrafted)).
- The related party disclosures in the financial statements are appropriate (Proposed ISA 550 (Revised and Redrafted)).
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter. (ISA 450)

#### *Completeness of Information*

- All records, documentation, unusual matters of which management is aware, and other information relevant to the audit have been made available to you.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud (Proposed ISA 240 (Redrafted)).
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements (Proposed ISA 240 (Redrafted)).

- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others (Proposed ISA 240 (Redrafted)).
- We have disclosed to you all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements (ISA 250).
- We have provided to you complete and accurate information regarding related party relationships and transactions (Proposed ISA 550 (Revised and Redrafted)).

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(Relevant Person)

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(Relevant Person)

**PROPOSED CONFORMING AMENDMENTS****ISA 200, “Objective and General Principles Governing an Audit of Financial Statements”**

- 33a ISAs are written, and audits are conducted, on the premises that management and, where appropriate, those charged with governance:
- Acknowledge and understand their responsibility for preparing and presenting the financial statements in accordance with the applicable financial reporting framework;
  - Acknowledge and understand their responsibility for designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; and
  - Will provide complete information to the auditor.
- 33b. Since these premises are fundamental to the audit, as part of agreeing the terms of engagement, the auditor is required by ISA 210, “Terms of Audit Engagements” to obtain confirmation that management and, where appropriate, those charged with governance acknowledge and understand those responsibilities. As the audit progresses, the auditor obtains audit evidence about these matters. Written representations about these matters constitute an essential part of sufficient appropriate audit evidence. Accordingly, the auditor is required by [proposed] ISA 580, “Written Representations” to obtain such written representations.

**ISA 210, “Terms of Audit Engagements”**

## Agreement on Written Representations

- 5a. **The auditor should obtain the acknowledgement and agreement of management and, where appropriate, those charged with governance that they understand their responsibilities for:**
- **Preparing and presenting the financial statements**
  - **Designing, implementing, and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error**
  - **Providing complete information to the auditor**
- 5b. ISA 200, “Objective and General Principles Governing an Audit of Financial Statements” states that audits are conducted on the premises that these responsibilities are acknowledged and understood by management and, where appropriate, those charged with governance. These premises are fundamental to the ability to conduct an effective independent audit, but there may be a risk that these premises may not be understood by management or those charged with governance. To avoid misunderstanding, agreement is reached with management and, where appropriate, those charged with governance about their responsibilities as part of agreeing the terms of engagement. Since [proposed] ISA 580, “Written Representations” requires the auditor to obtain written representations

about the validity of these premises, it may also be appropriate to make management aware that receipt of such representations from relevant persons will be expected together with, where appropriate, specific written representations. It also may be useful to agree with management or those charged with governance who the relevant persons are expected to be.

- 5c. Where management or those charged with governance will not make the necessary acknowledgements and agreements, or will not provide the necessary general written representations, the auditor will be unable to obtain sufficient appropriate audit evidence. In such circumstances, it may not be appropriate for the auditor to accept the engagement. In some cases, however, law or regulation prevents the auditor from refusing an engagement. In these cases, the auditor may need to explain to management and those charged with governance the importance of these matters, and the implications for the auditor's report.