

## Mark-up Based on September 2007 IAASB Draft

### PROPOSED INTERNATIONAL STANDARD ON AUDITING 580

#### (REVISED AND REDRAFTED)

#### WRITTEN REPRESENTATIONS

(Effective for audits of financial statements for periods beginning on or after ~~[date]~~ December 15, 2009)\*

## Introduction

### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to ~~request~~ obtain written representations from management; and, where appropriate, those charged with governance ~~the auditor's responses to a lack of acceptable written representations.~~
2. Appendix 1 lists other ISAs containing subject matter-specific requirements ~~and guidance~~ for written representations. The specific requirements for written representations of other ISAs do not limit the application of this ISA.
3. For purposes of this ISA, references to "management" should be read as "management and, where appropriate, those charged with governance."

### Written Representations as Audit Evidence

- 4.3. ~~[Proposed] ISA 500 (Redrafted), "Considering the Relevance and Reliability of Audit Evidence" describes "audit evidence."~~ "Audit evidence" is defined as all the information used by the auditor in arriving at the conclusions on which the audit opinion is based.<sup>1</sup> Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations 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.~~ (Ref: Para. A1-A2)
- 5.4. ~~Although W~~ ritten representations provide necessary audit evidence alone, ~~however, they~~ do not constitute ~~provide~~ sufficient appropriate audit evidence on their own about the premise, relating to management's responsibilities, on which the audit has been conducted or specific assertions of the financial

\*— See footnote 1.

<sup>1</sup> [Proposed] ISA 500 (Redrafted), "Considering the Relevance and Reliability of Audit Evidence," paragraph [3].

~~statements any of the matters with which they deal. Furthermore, audit evidence is influenced by its source and nature. The source of a specific written representation is not independent from the entity. Accordingly Furthermore, the fact that management has provided written representations, that the auditor may judge to be reliable, does not affect the nature or reduce the extent of other audit evidence that an the auditor obtains about the premise fulfillment of management's responsibilities, or about specific assertions of the financial statements. (Ref: Para. A3)~~

## Effective Date

- ~~6.5.~~ This ISA is effective for audits of financial statements for periods beginning on or after ~~[date]~~ December 15, 2009.<sup>2</sup>

## Objectives

- ~~7.6.~~ The objectives of the auditor are:
- (a) ~~To confirm by means of written representations the premise, relating to management's responsibilities, on which the audit has been conducted To obtain written evidence from management that it believes that it has fulfilled those fundamental responsibilities included in the premise on which an audit is conducted; (Ref: Para. A2-A3)~~
  - (b) Where necessary, to corroborate support other audit evidence by means of written representations about specific assertions ~~of in~~ the financial statements ~~which involve management's judgment or intent, or which may not be complete; and~~
  - (c) To respond appropriately to written representations ~~provided by management obtained or when management do if they are not provided the requested written representations.~~

## Definitions

- ~~8.7.~~ For purposes of the ISAs, the following term has the meaning attributed below:
- Written representation – A written statement of management, ~~based on their knowledge and belief,~~ provided to the auditor to confirm certain matters or to support other audit evidence. Written representations in ~~the this~~ context ~~of this ISA~~ do not include financial statements, the assertions therein, and supporting books and records. ~~(Ref: Para. A4 A6)~~
- ~~8.~~ ~~The premise, relating to management's responsibilities, on which the audit has been conducted, is defined in [proposed] ISA 200 (Revised and Redrafted).~~

## Requirements

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<sup>2</sup> ~~This effective date will not be earlier than December 15, 2008.~~

**Management from whom Written Representations Requested**

9. The auditor shall request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned. (Ref: Para. A4-A7)

**Written Representations about ~~the Premise, relating to~~ Management's Responsibilities, ~~on which the Audit has been Conducted~~** (Ref: Para. A7-A9)**Preparation and Presentation of the Financial Statements**

- 10.9. The auditor shall request management to provide a written representation ~~that it has fulfilled its responsibility for the preparation and presentation of the financial statement as set out in terms of the audit engagement and, in particular, whether the financial statements are prepared and presented in accordance with the applicable financial reporting framework.~~ (Ref: Para. A8-A11, A15, A23):

- (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 (Ref: Para. A10-A13)~~
- (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 Provided to the Auditor**

- 11.10. The auditor shall request management to ~~provide a written representation whether, based on their knowledge and belief, they have confirm that it has provided the auditor with all the relevant information the auditor required in connection with the audit of the entity as agreed in the terms of the audit engagement, and that all transactions have been recorded and are reflected in the financial statements.~~ (Ref: Para. A8-A11, A15, A23)

11. ~~This written representation shall include whether:~~

- ~~(a) All transactions have been recorded; and~~
- ~~(b) Management has disclosed to the auditor all control deficiencies.~~

**Description of Management's Responsibilities in the Written Representations**

<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.~~

12. Management's responsibilities shall be described in the written representations required by paragraphs 10 and 11 in the manner in which they are described in the terms of the audit engagement. (Ref: Para. A3)

### Other Written Representations

- 13.12. Other ISAs ~~contain requirements for~~ require the auditor to request written representations ~~(see Appendix 1). If, in addition to such required representations,~~ the auditor ~~may~~ determines that it is necessary to ~~request management to provide~~ obtain one or more written representation(s) to ~~corroborate support~~ other audit evidence ~~for relevant to the financial statements or one or more specific assertion(s) of in the financial statements which involve management's judgment or intent, or which may not be complete.~~ The auditor shall request such other written representations ~~when the auditor concludes that they are necessary.~~ (Ref: Para. ~~A12-A14-A16, A15, A23~~)

### Date of and Period(s) Covered by Written Representations

- 14.13. The date of the written representations shall be as near as practicable to, but not after, the date of the auditor's report on the financial statements. The written representations shall be for all financial statements and period(s) referred to in the auditor's report. (Ref: Para. ~~A17-A19~~ A16-A19)

### Form of Written Representations

- 15.14. The written representations shall be in the form of a representation letter addressed to the auditor. If, exceptionally, the auditor determines that other formal written statements by management provide the necessary representations, the relevant matters covered by such statements need not be included in the representation letter. (Ref: Para. A20-~~A22~~)
15. ~~If law or regulation prescribes management's responsibilities, the written representations required in paragraphs 9(a) and 10 shall be described in the manner they are described in the terms of the audit engagement.~~ (Ref: Para. A8)

### Doubt as to the Reliability of Written Representations and Requested Written Representations Not Provided

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

16. If ~~one or more~~ a 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 (oral or written) and audit evidence in general. (Ref: Para. ~~A22-A23~~ A24-A25)

17. If the auditor has ~~identified~~ other ~~significant issues relating to management's concerns about the~~ competence, communication, integrity, ethical values or diligence ~~of management or those charged with governance~~, or ~~management's about its~~ commitment to or enforcement of these, the auditor shall determine the effect that ~~they such concerns~~ may have on the reliability of ~~the written~~ representations ~~(oral or written) and audit evidence in general~~. (Ref: Para. ~~A24-A25~~ ~~A26-A27~~)
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),<sup>6</sup> ~~“Modifications to the Opinion in the Auditor's Report,”~~ having regard to the requirement in paragraph 20 of this ISA. ~~Paragraph 20 deals with unreliable written representations about the premise, relating to management's responsibilities, on which the audit has been conducted.~~

*Requested Written Representations Not Provided*

19. If management does 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~~ Reevaluate the ~~assessment of the~~ integrity of management ~~and, where appropriate, those charged with governance~~ and evaluate the effect that this may have on the reliability of ~~the other written~~ representations ~~(oral or written) and audit evidence in general~~; 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 of this ISA. ~~Paragraph 20 deals with unreliable written representations about the premise, relating to management's responsibilities, on which the audit has been conducted.~~ (Ref: Para. A19)

*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: (Ref: Para. ~~A26-A28~~ ~~A28-A29~~)
  - (a) The auditor concludes that the written representations ~~about the premise, relating to management's responsibilities, on which the audit has been conducted~~ required by paragraphs 10 and 11 are not reliable; or

<sup>6</sup> [Proposed] ISA 705 (Revised and Redrafted), “Modifications to the Opinion in the Independent Auditor's Report.”

- (b) Management does not provide the written representations ~~about the premise required by paragraphs 10 and 11.~~

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## Application and Other Explanatory Material

### Written Representations as Audit Evidence (Ref: Para. ~~3~~-4)

~~A1. Audit evidence obtained during the audit may support or contradict management's acknowledgement and understanding of the premise, relating to management's responsibilities, on which the audit has been conducted. However, such audit evidence is not sufficient without obtaining confirmation that management acknowledge and understand the premise. This is because the auditor is not able to judge management's acknowledgement and understanding of the premise solely based on other audit evidence. For example, the auditor could not conclude that management have provided the auditor with all the information the auditor required in connection with the audit of the entity without asking whether, and management asserting that all such information have been provided.~~

~~A2. The auditor may also determine that it is necessary to request written representations about specific assertions of the financial statements which involve management's judgment or intent, or which may not be complete. Such written representations are necessary to confirm the understanding of management's judgment or intent in relation to, or the completeness of, an assertion, that the auditor has obtained from other audit evidence. Such written representations alone, however, do not provide sufficient appropriate audit evidence for that assertion.~~

~~A1.A3. Requesting written representations about important matters is an effective auditing procedure. If management ~~modify~~ modifies or does not provide the requested written representations, it may alert the auditor to the possibility that one or more significant issue(s) may exist. Further, a request for written, rather than oral, representations in many cases may prompt management to consider such matters more rigorously, thereby enhancing the quality of the representations. Written representations are, therefore, an important source of audit evidence.~~

### Premise, relating to Management's Responsibilities, on which an Audit is Conducted

(Ref: Para. 7(a), 12)

A2. Law or regulation may establish management's responsibilities in relation to financial reporting. However, the extent of these responsibilities, or the way in which they are described, may differ across jurisdictions. Despite these differences, an audit in accordance with ISAs is conducted on the premise that management has responsibility:



- (a) For the preparation and presentation<sup>7</sup> of the financial statements in accordance with the applicable financial reporting framework; this 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; and
- (b) To provide the auditor with:
  - (i) All information that is relevant to the preparation and presentation of the financial statements, such as records, documentation, and other matters that support the financial statements;
  - (ii) Any additional information that the auditor may request from management; and
  - (iii) Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.<sup>8</sup>

A3. The auditor is required to obtain the agreement of management that it acknowledges and understands those responsibilities as a precondition for accepting the audit engagement.<sup>9</sup> If management's responsibilities prescribed by law or regulation are equivalent in effect to those described in paragraph A2, the auditor may use the wording of the law or regulation to describe them in the terms of the audit engagement.<sup>10</sup>

**Management from whom Written Representations Requested** (Ref: Para. 7.9)

A4. Written representations are requested from those responsible for the preparation and presentation of the financial statements. ~~For 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>11</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~~

<sup>7</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. This applies to all references to "preparation and presentation of the financial statements" in the ISAs.

<sup>8</sup> [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," paragraph [8].

<sup>9</sup> [Proposed] ISA 210 (Redrafted), "Agreeing the Terms of Audit Engagements," paragraph [4(b)].

<sup>10</sup> [Proposed] ISA 210 (Redrafted), paragraph [5].

<sup>11</sup> ~~"Person" in this context could be an organization, e.g., a corporate trustee (i.e., not necessarily a "natural person").~~

approving<sup>12</sup> the entity's financial statements (in other cases those charged with governance have this responsibility)." Those individuals may vary depending on the governance structure of the entity, and relevant law or regulation; however, management (rather than those charged with governance) is often the responsible party. Written representations may therefore be requested from the entity's chief executive officer and chief financial officer, or other equivalent persons in entities that do not use such titles. In some circumstances, however, other parties, such as those charged with governance, are also responsible for the preparation and presentation of the financial statements.

~~A5. Written representations include confirmation that management acknowledge and understand the premise, relating to management's responsibilities, on which the audit has been conducted, written representations required by other ISAs and, where necessary, written representations about specific assertions of the financial statements which involve management's judgment or intent, or which may not be complete.~~

~~A5.A6.~~ Due to their its responsibility for the preparation and presentation of the financial statements, and its responsibilities for the conduct of the entity's business, management would be expected to have sufficient knowledge of the process followed by the entity in preparing and presenting the financial statements and the assertions therein on which to base the written representations.

~~A6.~~ In some cases, however, Mmanagement may, ~~however,~~ consider it necessary to make inquiries to inform it about relevant matters to be able to provide such written representations. ~~They These~~ may include ~~inquiries from of~~ others who ~~are part of the process followed by the entity participate~~ 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. ~~For example~~ Such individuals may include:

- An ~~entity may employ an~~ actuary ~~who has responsibility responsible~~ for ~~and specialized knowledge about~~ actuarially determined accounting measurements.
- Staff engineers who may have responsibility for and specialized knowledge about environmental liability measurements.
- Internal counsel who may provide information essential to provisions for legal claims.

It is not expected that such inquiries would usually require a formal internal process beyond those already established by the entity.

~~A7.~~ In some case, management may include in the written representations qualifying language to the effect that representations are made to the best of its knowledge

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<sup>12</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.~~



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. In such circumstances, and to reinforce the need for management to make informed representations, the auditor may request that management include in the written representations confirmation that it has made such enquiries as it considered appropriate to place it in the position to be able to make the requested written representations.

**Written Representations about ~~the~~ ~~Premise, relating to~~ Management's Responsibilities, ~~on which the Audit has been Conducted~~** (Ref: Para. ~~9-11~~ 10-11)

~~A7. Law or regulation may establish management's responsibilities. However, the extent of these responsibilities, or the way in which they are described, may differ across jurisdictions. Despite these differences, an audit in accordance with the ISAs is conducted on the premise that management acknowledge and understand their responsibility:~~

- ~~(a) For the preparation and presentation<sup>13</sup> 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<sup>14</sup> of financial statements 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.~~

~~A8. [Proposed] ISA 210 (Redrafted), "Agreeing the Terms of Audit Engagements" requires the auditor to obtain management's agreement about their responsibilities as a precondition for accepting the audit engagement. It also explains that, 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.~~

A8. During the course of the audit the auditor may obtain audit evidence that management is fulfilling the responsibilities that it agreed to in the terms of the audit engagement. However, such audit evidence is not sufficient without obtaining confirmation from management that it believes that it has fulfilled those responsibilities. This is because the auditor is not able to judge solely on other audit evidence whether management has prepared and presented the financial statements and provided information to the auditor on the basis of the

<sup>13</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>14</sup> ~~See footnote 7.~~

agreed acknowledgement and understanding of its responsibilities. For example, the auditor could not conclude that management has provided the auditor with the information described in paragraph A2 without asking it whether, and receiving confirmation that, such information has been provided.

A9. The written representations required by paragraphs 10 and 11 draw on the agreed acknowledgement and understanding of management of its responsibilities in the terms of the audit engagement by requesting confirmation that it has fulfilled them. The auditor may also ask management to reconfirm its acknowledgement and understanding of those responsibilities in written representations. This is common in certain jurisdictions, but in any event may be particularly appropriate when:

- Those who signed the terms of the audit engagement on behalf of the entity no longer have the relevant responsibilities;
- The terms of the audit engagement were prepared in a previous year;
- There is any indication that management misunderstands those responsibilities; or
- Changes in circumstances make it appropriate to do so.

Where the written representations include reconfirmation of management's acknowledgement and understanding of its responsibilities, it is not appropriate for this to be made subject to the best of management's knowledge and belief.

#### Considerations Specific to Small Entities

A10. Management of a small entity may request the auditor or another professional accountant to assist in the preparation and presentation of the entity's financial statements. In such a case, written representations about the financial statements are particularly important to emphasize the responsibilities required to be agreed with management. To ensure that management understands the written representations, and therefore provides them on an informed basis, the auditor may consider it necessary to explain these matters to management when agreeing the terms of the audit engagement<sup>15</sup> and when requesting the written representations. Although, management may make inquiries from the auditor regarding the written representations, management remains responsible for the preparation and presentation of the financial statements and cannot rely on the fact that the auditor has assisted in the preparation and presentation of the financial statements.

#### Considerations Specific to Public Sector Entities

A11.A9. The mandates for audits of the financial statements of public sector entities may be broader than those of other entities. As a result, the premise, relating to management's responsibilities, on which an audit of the financial statements of a public sector entity is conducted may give rise to additional

<sup>15</sup> [Proposed] ISA 210 (Redrafted), paragraphs [A18-A19].

written representations. These may include written representations confirming ~~management's acknowledgement and understanding of the economy, efficiency and effectiveness of programs, projects and other activities, or~~ that transactions and events have been carried out in accordance with legislation or proper authority.

### **Other Written Representations** (Ref: Para. 13)

#### **Additional Written Representations about the Financial Statements** ~~(Ref: Para. 9)~~

~~A12.~~A10. In addition to ~~the~~ written representation required by paragraph 10, the auditor may consider it necessary to request other written representations about management's responsibility for the preparation and presentation of the financial statements. Such written representations may supplement, but do not form part of, the written representation required by paragraph 10. They may also include representations such as about the following:

- Whether the selection and application of accounting policies are appropriate; and
- Whether matters such as the following, where relevant ~~in view of~~ under the applicable financial reporting framework, have been recognized, measured, presented or disclosed in accordance with that framework:
  - Plans or intentions that may affect the carrying value or classification of assets and liabilities;
  - ~~Whether liabilities, both actual and contingent, have been recorded and, where appropriate, disclosed;~~
  - Title to, or control over assets, and the liens or encumbrances on assets, and assets pledged as collateral; and
  - Aspects of laws, regulations and contractual agreements that may affect the financial statements, including noncompliance; ~~and.~~
  - ~~Events subsequent to the period end.~~

### **Internal Control**

~~A11. ISA 315 (Redrafted), "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment" defines "internal control" as: "The process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control assists managements in fulfilling their responsibility for the preparation and presentation of the financial statements."~~

~~A12. Internal control is an important aspect of management's responsibility for the preparation and presentation of the financial statements in accordance with the~~

~~applicable financial reporting framework. Internal control assists management in fulfilling that responsibility. Accordingly, the auditor requests management to provide the written representation about internal control.~~

#### Considerations Specific to Small Entities

~~A13. 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 (see paragraph A6).~~

#### ~~Other~~ *Written Representations about Specific Assertions* (Ref: Para. 12)

~~A14. The auditor may consider it necessary to confirm an understanding of management's judgment or intent in relation to, or the completeness of, a specific assertion that the auditor has obtained from other audit evidence.~~

~~A13.~~ A15. Evaluating management's judgment or intent is inherently subjective and, therefore, uncertain. In some cases, the auditor may obtain audit evidence which supports, or is inconsistent with, management's assertions by considering matters directly or indirectly linked to the assertion. When obtaining evidence about, or evaluating management's 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. In addition, the auditor may consider it necessary to request management to provide written representations about specific assertions in the financial statements; in particular, to support an understanding that the auditor has obtained from other audit evidence of management's judgment or intent in relation to, or the completeness of, a specific assertion. For example, if the intent of management is important to the valuation basis for investments, it may not be possible to obtain sufficient appropriate audit evidence without a written representation from management about its intentions. Although such written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own for that assertion.

**Communicating a Threshold Amount** (Ref: Para. 10, 11, 13)

~~A15.A16.~~ [Proposed] ISA 450 (Revised and Redrafted), “Evaluation of Misstatements Identified during the Audit” requires ~~that~~ the auditor is required to accumulate misstatements identified during the audit, other than those that are clearly trivial.<sup>16</sup> Consequently, the auditor may determine a threshold above which misstatements cannot be regarded as clearly trivial. In the case of written representations, the auditor may consider communicating to management a similar threshold when requesting for purposes of the requested written representations.

**Date of and Period(s) Covered by Written Representations** (Ref: Para. ~~13~~ 14)

~~A16.A17.~~ Because written representations are necessary audit evidence, ~~the auditor cannot obtain sufficient appropriate audit evidence without having obtained the 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 are dated as near as practicable to, but not after, the date of the auditor’s report on the financial statements.

A17. In some circumstances it may be appropriate for the auditor to obtain a written representation about a specific assertion in the financial statements during the course of the audit. Where this is the case, it may be necessary to request an updated written representation.

A18. The written representations are for all periods referred to in the auditor’s report because management needs s to reaffirm that the written representations ~~they~~ it previously made with respect to the prior periods remain appropriate. The auditor and management may agree to a form of written representation that updates ~~previous~~ written representations relating to the prior periods by addressing whether there are any changes to such written representations and, if so, what they are.

A19. Situations may arise where current management were not present during all periods referred to in the auditor’s report. Such persons may assert that they are not in a position to provide some or all of the written representations because they were not in place during the period. This fact, however, does not diminish such persons’ responsibilities for the financial statements ~~as set out in paragraph A7 a whole~~. Accordingly, the requirements for the auditor to request from them written representations that cover the whole of the relevant period(s) ~~from them~~ still apply ~~applies~~.

**Form of Written Representations** (Ref: Para. ~~14~~ 15)

<sup>16</sup> [Proposed] ISA 450 (Revised and Redrafted), “Evaluation of Misstatements Identified during the Audit,” paragraph [5].

A20. Written representations are required to be included in a representation letter addressed to the auditor. ~~Management's signing of the financial statements, or making. In some jurisdictions, management may be required by law or regulation to make~~ a written public declaration in relation to the financial statements. ~~Although such declaration~~ is a representation to the users of the financial statements, ~~or to relevant authorities subsequent to the audit; not a representation to the auditor prior to issuance of the auditor's report,~~ the auditor may determine that it is an appropriate form of written representation in respect of certain of management's responsibilities. ~~Such actions, therefore, do not serve as a substitute for the written representations.~~ Factors that may affect the auditor's determination include:

- Whether the declaration includes confirmation of the fulfillment of responsibilities that are equivalent to some or all of those set out in the terms of the audit engagement.
- Whether the declaration has been given or approved by those from whom the auditor requests the relevant written representations.
- Whether a copy of the declaration is provided to the auditor as near as practicable to, but not after, the date of the auditor's report on the financial statements (see paragraph 16).

A21. A formal statement of compliance with law or regulation, or of approval of the financial statements, would not contain sufficient information for the auditor to be satisfied that all necessary representations have been consciously made. The expression of management's responsibilities in law or regulation is also ~~does~~ not ~~serve as~~ a substitute for the requested written representations.

A22. Appendix 2 provides an illustrative example of a representation letter.

#### **Communication with Those Charged with Governance** (Ref: Para. 10, 11, 13)

~~A23.~~A21. ~~[Proposed] ISA 260 (Revised and Redrafted) requires t~~The auditor is required to communicate with those charged with governance the written representations which the auditor has requested from management.<sup>17</sup>

#### **Doubt as to the Reliability of Written Representations and Requested Written Representations Not Provided**

*Doubt as to the Reliability of Written Representations* (Ref: Para. 16-17)

~~A24.~~A22. Obtaining audit evidence from different sources or of a different nature may indicate that an individual item of audit evidence is not reliable, such as when a written representation is inconsistent with audit evidence obtained from another source.

<sup>17</sup> [Proposed] ISA 260 (Revised and Redrafted), "Communication with Those Charged with Governance," paragraph [12(c)(iii)].



A25.A23. In the case of identified inconsistencies, the auditor may consider whether the risk assessment remains appropriate and, if not, revise the risk assessment and determine the nature, timing and extent of further audit procedures to respond to the assessed risks.

A26.A24. Concerns about the management's competence, communication, integrity, ethical values or diligence of management, or management's about its commitment to or enforcement of these, may be so serious as to cause the auditor to conclude that the risk of management misrepresentation in the financial statements is such that an audit cannot be conducted. In such a case, the auditor may consider, where possible, withdrawing from the engagement, unless those charged with governance put in place appropriate corrective measures. Such action measures, however, may not be sufficient to enable the auditor to issue an unmodified audit opinion.

A27.A25. ~~[Proposed] ISA 230 (Redrafted), "Audit Documentation" requires t~~The auditor is required to document significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.<sup>18</sup> The auditor may have identified significant issues relating to management's the competence, communication, integrity, ethical values or diligence of management, or management's about its commitment to or enforcement of these, but concluded that the written representations are nevertheless reliable. In such a case, this significant matter is documented in accordance with [proposed] ISA 230 (Redrafted).

*Written Representations about the Premise, relating to Management's Responsibilities, on which the Audit has been Conducted* (Ref: Para. 20)

A28.A26. As explained in paragraph ~~A1~~ A8, the auditor is not able to judge management's acknowledgement and understanding of the premise, relating to management's responsibilities, on which the audit has been conducted solely based on other audit evidence solely on other audit evidence whether management has prepared and presented the financial statements and provided information to the auditor on the basis of the agreed acknowledgement and understanding of its responsibilities. Therefore, if the auditor concludes that the written representations about the premise, relating to management's responsibilities, on which the audit has been conducted (see paragraphs 9-10) these matters are unreliable, or if management does not provide those written representations, the auditor is unable to obtain sufficient appropriate audit evidence. The possible effects on the financial statements of such inability are not confined to specific elements, accounts or items of the financial statements and are hence pervasive. ~~[Proposed] ISA 705 (Redrafted) requires t~~The auditor is required to disclaim an opinion on the financial statements in such circumstances.<sup>19</sup>

<sup>18</sup> [Proposed] ISA 230 (Redrafted), "Audit Documentation," paragraphs [8(c) and 10].

<sup>19</sup> [Proposed] ISA 705 (Revised and Redrafted), paragraph [12].

~~A29.~~A27. 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. For example:

- The written representation about ~~management's~~ the responsibility of management for the preparation and presentation of the financial statements may state that management believe that, except for material noncompliance with a particular requirement of the applicable financial reporting framework, the financial statements are prepared and presented in accordance with that framework. The requirement in paragraph 20 does not apply because the auditor concluded that management ~~have~~ has provided reliable written representations ~~about the premise, relating to management's responsibilities, on which the audit has been conducted.~~ However, ~~the requirement in [proposed] ISA 705 (Revised and Redrafted) for the auditor is required~~ to consider the effect of the noncompliance on the opinion in the auditor's report applies in accordance with [proposed] ISA 705 (Revised and Redrafted).
- The written representation about ~~completeness of information provided the responsibility of management to provide~~ the auditor with the information described in paragraph 4(b) may state that management believes that, except for information destroyed in a fire, ~~all records, documentation, unusual matters of which management are aware, and other information relevant to the audit have been provided to the auditor~~ it has provided the auditor with all relevant information as described in the terms of the audit engagement. The requirement in paragraph 20 does not apply because the auditor concluded that management ~~have~~ has provided reliable written representations ~~about the premise, relating to management's responsibilities, on which the audit has been conducted.~~ However, ~~the requirement in [proposed] ISA 705 (Revised and Redrafted) for the auditor is required~~ to consider the effects of the pervasiveness of the information destroyed in the fire on the financial statements and the effect thereof on the opinion in the auditor's report applies in accordance with [proposed] ISA 705 (Revised and Redrafted). ~~Depending on the pervasiveness of the effects, the auditor may disclaim an opinion.~~

~~The Effect of Unreliable Other Written Representations on the Written Representations about the Premise~~

~~A28.~~ The auditor may conclude that one or more of the written representation(s) required by other ISAs, or one or more of the written representation(s) about specific assertions of the financial statements is (are) not reliable, or management may not provide them. This may affect the reliability of the written representations about the premise, relating to management's responsibilities, on which the audit has been conducted. For example, the auditor may conclude that the written representation about completeness of information provided to the auditor is not reliable if the auditor has concluded that the written

~~representations required by ISA 240 (Redrafted), “The Auditor’s Responsibility Relating to Fraud in an Audit of Financial Statements” are unreliable or management did not provide them. This will render the written representation about completeness of information unreliable and, as a result, the auditor’s opinion is disclaimed as required in paragraph 20.~~

## Appendix 1

(Ref: Para. 1)

### List of ISAs Containing Requirements for Written Representations

This appendix identifies paragraphs in ISAs that require subject matter-specific written representations. The list is not intended to be exhaustive. Furthermore, it is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

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

[Proposed] ISA 250 (Redrafted), “The Auditor’s Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements” – paragraph [14]

[Proposed] ISA 450 (Redrafted), “Evaluation of Misstatements Identified during the Audit” – paragraph [16]

[Proposed] ISA 540 (Revised and Redrafted) ~~(Combined ISA 540-545)~~, “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures” – paragraph [22]20

[Proposed] ISA 550 (Revised and Redrafted), “Related Parties” – paragraph [27]24

[Proposed] ISA 560 (Redrafted), “Subsequent Events” – paragraph [9]

[Proposed] ISA 570 (Redrafted), “Going Concern” – paragraph [16(d)]

**Appendix 2**(Ref: Para. A22)**Illustrative Representation Letter**

The following illustrative letter includes written representations that are required by this and other ISAs in effect as of [date]. It is assumed in this illustration that the applicable financial reporting framework is International Financial Reporting Standards; the requirement of [proposed] ISA 570 (Redrafted), “Going Concern” to obtain a written representation is not relevant; and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

(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>20</sup> for the purpose of expressing an opinion as to whether the financial statements ~~are~~ presented fairly, in all material respect,<sup>†</sup> ~~or give a true and fair view~~ in accordance with International Financial Reporting Standards.

We confirm that, to the best of our knowledge and belief, having made such enquiries as we considered necessary for the purpose of appropriately informing ourselves:

*Financial Statements*

- ~~We acknowledge and understand our responsibility for the [preparation and fair presentation of the financial statements] [preparation of financial statements that give a true and fair view] and that this responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. We have fulfilled our responsibilities for the preparation and presentation of the financial statements as set out in the terms of the audit engagement dated [insert date] and, in particular, the financial statements are fairly presented (or give a true and fair view) in accordance with International Financial Reporting Standards.~~

<sup>20</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 auditor’s report.

- ~~To the best of our knowledge and belief, the financial statements are [fairly presented] [give a true and fair view] in accordance with International Financial Reporting Standards. This includes the following:~~
  - ~~Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. ([Proposed] ISA 540 (Revised and Redrafted) (Combined ISA 540-545))~~
  - ~~[A written representation with regard to related party transactions and the effects of related party relationships will be inserted when proposed ISA 550 (Revised and Redrafted) is finalized.]~~ Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards. ([Proposed] ISA 550 (Revised and Redrafted))
  - ~~[A written representation with regard to related party disclosures in the financial statements will be inserted when proposed ISA 550 (Revised and Redrafted) is finalized.]~~
  - All events subsequent to the date of the financial statements and for which International Financial Reporting Standards require adjustment or disclosure have been adjusted or disclosed. ([Proposed] ISA 560 (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. ([Proposed] ISA 450 (Redrafted))
  - [Any other matters that the auditor may consider appropriate (see paragraph ~~A10~~ A12 of this ISA).]

*Completeness of Information Provided*

- ~~To the best of our knowledge and belief, w~~We have provided you with~~all the information you required in connection with the audit of ABC Company. This includes all records, documentation, and other matters of which we are aware and that may affect the financial statements.:~~
  - All information that is relevant to the preparation and presentation of the financial statements, such as records, documentation, and other matters that support the financial statements;
  - Additional information that you have requested from us; and
  - Unrestricted access to those within the entity.
- To the best of our knowledge and belief:
  - ~~All transactions have been recorded; and~~
  - ~~We have disclosed to you all control deficiencies.~~



- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- 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. (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. (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. (ISA 240 (Redrafted))
- We have disclosed to you all known actual or possible noncompliance with laws and regulations whose effects should be considered when preparing financial statements. ([proposed] ISA 250 (Redrafted))
- ~~{A written representation with regard to the completeness of related parties, related party relationships and related party transactions will be inserted when proposed ISA 550 (Revised and Redrafted) is finalized.}~~We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. ([Proposed] ISA 550 (Revised and Redrafted))
- [Any other matters that the auditor may consider necessary.]

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Management

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Management

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