



International Federation of Accountants

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Agenda Item

7

Committee: IAASB
Meeting Location: Hong Kong
Meeting Date: March 6–10, 2006

Written Representations

Objectives of Agenda Item

To discuss a first read draft of the proposed revised ISA 580, “Written Representations.”

Task Force Members

The members of the Task Force are:

John Fogarty (Chair)	IAASB Member
Sylvia Smith	IAASB Technical Advisor
Josef Ferlings	IAASB Member
Wolfgang Böhm	IAASB Technical Advisor
Mowafak Al Yafi	Former IAASB Member
Vijaya Moorthy	INTOSAI Representative

Activities since Last IAASB Discussions

At its meeting in June 2005, the IAASB asked the Task Force to consider its comments on the Issues Paper presented by the Task Force, and to present a first read of the proposed revised ISA 580 at the December 2005 meeting. Due to the IAASB’s busy agenda, the first read has been rescheduled for March 2006.

The Task Force met twice to consider the comments received and to prepare a draft of the proposed revised ISA.

Issues Presented to the IAASB for Consideration

Management's Agreement to Provide General Representations

General written representations provide evidence of acknowledgement by relevant persons of their responsibility and accountability for the preparation and presentation of the financial statements. Accordingly, the Task Force believes that refusal by relevant persons to provide a required general written representation constitutes a scope limitation so pervasive and material that the auditor is unable to complete the audit and, accordingly, a disclaimer of opinion or withdrawal from the engagement is appropriate.

The importance of general written representations gives rise to the issue of whether prior to commencement of the audit it is necessary for the auditor to obtain evidence that the relevant persons agree to provide the required general written representations. Such evidence, which may be provided as part of the terms of the audit engagement, will help reduce the risk that the auditor, having performed an entire audit, is unable to complete it because of an unanticipated reluctance by relevant persons to provide general written representations.

This gives rise to two ancillary issues, (i) whether the auditor should commence the audit if management refuses to provide the necessary representations; and, (ii) whether agreement to provide the necessary representations should form part of the terms of the audit engagement.

Should the Auditor Commence the Audit If Management Refuses to Provide the Necessary Representations?

Should management's refusal to provide the acceptance be indicative of its later refusal to provide general written representations, it may seem reasonable for the auditor not to accept the engagement. However, a requirement to that effect in these circumstances may not be appropriate as management's reluctance to provide the acceptance may be caused by other factors and may not always necessarily lead to the refusal to provide general written representations on completion of the audit.

Further, should the auditor be required not to accept the engagement when management refuses to provide the acceptance, this requirement could not be followed in those circumstances where rejection or discontinuance of the relationship is not possible, for example the engagements of state audit institutions or of statutory auditors in some jurisdictions.

The Task Force's view is that the auditor's course of action in such circumstances depends on the context. Where the auditor is considering whether to accept a new client and a specific audit engagement and the engaging party refuses to include in the audit engagement letter its acceptance of the expectation to provide general written representations, the auditor should explain to the engaging party the implications of the refusal. Where the refusal persists even after the explanation, the auditor may find it difficult to accept the client. On the other hand, where the auditor does not have the option of rejecting the engagement, the auditor should commence the audit and, where relevant persons indeed refuse to provide general written representations, follow the standards and guidance applicable when the auditor is unable to obtain required written representations.

Should agreement to provide the necessary representations form part of the terms of the audit engagement?

ISA 210, “Terms of Audit Engagement” establishes standards and provides guidance on agreeing the terms of the engagement. ISA 210 includes the expectation to receive written representations as part of the items that the auditor “may also wish” to include in the audit engagement letter. The proposed revised ISA 580 however requires that the auditor obtain agreement from management and those charged with governance prior to accepting the audit engagement that appropriate general written representations from relevant persons are necessary to obtain sufficient appropriate audit evidence. The only exception to this requirement would be circumstances, where law or regulation requires that the auditor accept the engagement irrespective of disagreements over the terms.

The implication of this proposed requirement is that the auditor should not accept an engagement when management refuses to agree as part of the terms of the audit engagement that appropriate general written representations will be provided by relevant persons, unless otherwise provided by law or regulation. However, this requirement may appear to constitute an amendment of ISA 210 by way of requirement in ISA 580.

The Task Force’s view is that this issue is important and that the proposed revised ISA 580 should include the proposed requirement. Therefore, the auditor should obtain the acceptance from the engaging party prior to commencement of the audit.

Does the IAASB agree with the Task Force’s view that ISA 580 should require the auditor not to accept an engagement when management refuses to agree, as part of the terms of the audit engagement, that appropriate general written representations will be provided by relevant persons?

External Confirmations from Relevant Persons

Management representations are defined in the Glossary as, “representations made by management to the auditor during the course of an audit, either unsolicited or in response to specific inquiries.” Confirmation is defined as, “a specific type of inquiry that is the process of obtaining a representation of information or of an existing condition directly from a third party.” These definitions provide guidance as to the dividing line between written representations from management as defined in ISA 580 and other representations obtained in the form of confirmations from third parties.

During its discussions, the Task Force recognized that management often is requested to confirm details regarding transactions that they have personally entered into with the entity (e.g., loans granted to management by the entity). The Task Force believes that such confirmations are not representations within the scope of this project even though they involve management.

In addition, the Task Force has concluded that certifications made by a CEO in relation to the fair presentation of financial statements or the effectiveness of internal control are not within the scope of this project because such certifications do not meet the definition of management representations. (The Task force also believes that such certifications do not meet the definition of confirmations in the Glossary.)

The issue of external confirmations was raised by one Task Force member. Even though the Task Force discussed the issue, other members are not sure whether it is relevant for the purposes of this ISA. Therefore, the Task Force would like to obtain additional views and direction from the IAASB.

Does IAASB agree with the Task Force's conclusions? Does IAASB believe that the revised ISA should specifically state that the above two matters are not within the scope of the ISA?

Material Presented

Agenda Paper 7-A Proposed revised ISA 580 (Revised)
(Pages 499-510)

Action Requested

The IAASB is asked to provide direction on the issues described and to review the proposed revised ISA.