



Organización Internacional de Comisiones de Valores  
International Organisation of Securities Commissions  
Organisation internationale des commissions de valeurs  
Organização Internacional das Comissões de Valore

June 26, 2007

Mr. James M. Sylph  
Executive Director, Professional Standards  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, NY 10017

Email address: [Edcomments@ifac.org](mailto:Edcomments@ifac.org)

Re: Proposed Revised and Redrafted International Standard on Auditing 580 "Written Representations"

Dear Mr. Sylph:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (SC 1) appreciates the opportunity to comment on the Exposure Draft of proposed redrafted international standard on auditing ISA 580, *Written Representations* (the ED). As an international organization of securities regulators representing the public interest, IOSCO SC 1 is committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing, and professional standards.

Members of SC 1 seek to further IOSCO's mission through thoughtful consideration of accounting, auditing and disclosure concerns, and pursuit of improved global financial reporting. As we review proposed auditing standards, our concerns focus on whether the standards are sufficient in scope and adequately cover all relevant aspects of the area of audit being addressed, whether the standards are clear and understandable, and whether the standards are written in such a way as to be enforceable. Our comments in this letter reflect those matters on which we have achieved a consensus among the members of SC 1; however, they are not intended to include all comments that might be provided by individual members on behalf of their respective jurisdictions.

We believe the proposed revision to the existing standard clarifies the use of written representations and appropriately emphasizes that written representations by management do not constitute sufficient and appropriate audit evidence by themselves.

The proposed new standard is an improvement over the existing standard, but we would like to see more explanation about the inherent limitations of written management representations and why they cannot be substitutes for audit evidence gathered by the auditor. This could be undertaken by modifying

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the definition of written representations by enhancing the introduction section, or through other means of clarification.

#### ***Scope of this ISA - Paragraph 1***

We believe the scope of the ISA is appropriate.

#### ***Objective - Paragraph 3***

We understand the general direction of the stated objective, but believe that the statement of objective should be more clear, direct, and articulated in a way that is more outcome or achievement oriented. We also believe that to suggest that the auditor is 'corroborating' other audit evidence through obtaining written representations, is to accord too high an audit evidential status to written representations.

Rather than state "The objective of the auditor is to corroborate, by means of written representations, the validity of the premises, relating to management responsibilities, on which an audit is conducted", it would be preferable to say something like "The objective of the auditor is to achieve a confirmation from management of the auditor's underlying assumptions and premises regarding management's responsibilities, and to obtain management's written confirmation regarding specific assertions in the financial statements." In our view, it is other audit evidence that corroborates management's representation, rather the reverse being true.

We also think it is important to emphasize more strongly somewhere in the ISA that if management is unwilling or unable to provide specific written representations, this should serve as an alert to the auditor to reconsider not only the underlying premises on which the audit has been based but also to reassess risks of misstatement for the matter concerned and the audit in general.

#### ***Requirements - Paragraph 4 (d)***

The definition of relevant parties for specific assertions states that "relevant parties may include individuals who have specialized knowledge about those assertions". This statement can be read to include relevant parties outside the audited company, including service organizations and others. We are not sure whether the Board intends to require auditors to obtain specific written representations directly from such service organizations or through individuals responsible for the respective assertions within the audited company. We request that the Board clarify this definition.

#### ***Relevant Parties - Paragraph 6***

This paragraph needs rewording and clarification, in that the last clause appears to refer to inquiries that the persons giving representations (the relevant parties) would need to have made in order to enable them to give such representations; however, because this is written indirectly, it is not quite clear. It is also arguable whether a party giving a representation would in all cases have to have made an inquiry - for example, a relevant party may know the necessary information himself or herself and would therefore not need to have made an inquiry.

#### ***General Written Representations - Paragraph 7***

We believe it would be helpful to clarify who may draft written representations and further emphasize that only limited reliance may be placed thereon. While auditors may decide what written representations are needed, and they may present management with a draft of the written representations

they wish to request, they should always remain aware that the representations are inherently the representations (assertions) of management. As such, they should be accorded no further reliance than is placed on any other information provided by management.

***Internal Control - Paragraph 9***

The first part of this paragraph, directing the auditor to request a written representation from relevant parties that they acknowledge their responsibilities for implementing, and maintaining internal control relevant to preparing and presenting financial statements that are free from material misstatement, whether due to fraud or error, seems reasonable and fundamental to financial reporting and uncontroversial. The second part of the paragraph, directing that the relevant parties shall also state "whether they believe that the internal control that they have maintained is adequate for that purpose" presents some complexities that have engendered debate among our members.

Our members all agree that management has a responsibility for adequate controls over financial reporting, but specifying in an audit standard a management statement of adequacy or effectiveness that is not required in regulation in some jurisdictions is viewed by some as regulating companies through an audit standard. Whether or not management's system of internal controls over financial reporting is adequate seems more to be a matter that should be subject to the auditor's inquiry and audit procedures. Insofar as a management representation is concerned, we believe it is appropriate that the auditor shall request management to provide a written representation that any material weaknesses of internal control over financial reporting, if known by the management, have been disclosed to the auditor.

Because an explicit assertion of adequacy or effectiveness is a requirement that does not exist in the legal and regulatory frameworks of some jurisdictions with highly-developed systems of regulation, we further suggest the coverage of this subject and the necessity to comply with local regulation be placed in the Application and Other Explanatory Material Section.

We also suggest that the sub-heading "*Internal Control*" be changed to "*Internal Control relevant to financial statements*" or "*Internal Controls over Financial Reporting*".

In addition to the general comments we have made above, Appendix A contains our responses to questions in the Explanatory Memorandum accompanying the ED and Appendix B contains some additional edits and questions.

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Thank you for the opportunity to comment on this ED. If you have any questions or need additional information regarding this comment letter, you may contact me or Susan Koski-Grafer at 202-551-5300, or any other member of the IOSCO Standing Committee No. 1 Auditing Subcommittee.

Sincerely,



Julie A. Erhardt  
Chair  
IOSCO Standing Committee No. 1

## Appendix A

### Responses to Request for Specific Comments in the Exposure Draft

#### 1. Whether the details of the general written representations regarding the financial statements are appropriate

We have made comments earlier in this letter regarding clarifications that we believe are needed in the statement of objective and these comments would apply to the appropriateness of the general written representations as well. We would also like to see a statement that provides some limit and guidance on the overall scope of items to be included in general written representations, as opposed to specific representations. We think this is especially important considering the strong consequences of failing to obtain general written representation letters. Please see our response to Question 3 for more details.

Please also see our comment earlier in this letter regarding paragraph 9.

#### 2. The requirement for the auditor to request relevant parties to confirm whether they believe that the internal control they have maintained is adequate for preparing and presenting financial statements that are free from material misstatement

In view of the importance of controls over financial reporting and the impact that such controls may have on the information that is reported to investors, we support the action whereby the auditor would request general confirmation of relevant parties regarding their responsibilities for adequate internal controls. However, we are not sure whether this term "adequate" merely means the controls are "not deficient" or would also incorporate any other level of adequacy as required or defined by frameworks or legislation in each jurisdiction. We, therefore, suggest that the Board explain more about the meaning of "adequacy" in the standard, including the level of expectation for auditors to verify the representations by management and how it relates to the particular reporting and legal requirements regarding internal control in individual jurisdictions. Please also see our comment earlier in this letter regarding paragraph 9.

In addition, we recommend that the Board clarify that the extent of internal controls being addressed in this ISA is those controls relating directly to the financial statements, by modifying the sub-heading "*Internal control*" to "*Internal controls relevant to financial statements*" or "*Internal controls over financial reporting*".

#### 3. The requirement in paragraph 19 for the auditor to disclaim an opinion on the financial statements when relevant parties do not provide the general written representations about the premises, relating to management's responsibilities, on which an audit is conducted

We acknowledge the logical possibility that the auditor's inability to obtain a general written representation letter can lead to a failure in obtaining sufficient and appropriate audit evidence on matters that are material and pervasive to the financial statements, which therefore would require auditors to disclaim their opinions. However, we are not sure that such inability to obtain a general representation would always lead auditors to fail in obtaining sufficient and appropriate audit evidence.

Considering the very strong consequences of inability to obtain general written representations, we are concerned about the possible open-ended and very broad interpretation of items to be included in a general written representation letter. We are especially concerned about auditors' possible misinterpretation that the representations can be utilized in limiting their responsibility or liability,

which we believe is wrong. In this context, we would like to see a sentence limiting possible items included in general written representations.

As we read paragraph 19, it was not clear to us the Board is intending to address only the situation where auditors shall disclaim their opinions or would also address situations where auditors might modify their opinions. If the Board intends to address the situation where auditors shall modify their opinions, rather than disclaiming, we recommend that the Board clarify what is intended. If, on the other hand, the Board intends to address only the situation where auditors shall disclaim their opinions, we recommend that the Board modify the second paragraph to state "The possible effects on the financial statements of such inability are material and pervasive".

#### **4. The date of the general written representations**

We are aware that, in respective jurisdictions, there are diversities in sequences of (i) the auditor's report date and (ii) the date of management's approval of financial statements. Basically, we support the requirement that the general written representations shall be as of the same date as the auditor's report on the financial statements, but in the case where a management's approval of financial statements occurs later than an auditor's report date, we expect auditors to inquire and/or to obtain a separate written representation regarding any subsequent events that have occurred during the period above. We request that the Board clarify this issue. The rationale that resulted in reaching a conclusion should be explained in the Basis of Conclusion document.

#### **5. Whether the objective for the proposed revised ISA is appropriate, and whether the proposed requirements are appropriate responses to that objective**

Please see our comments on this matter earlier in this letter. As noted and elaborated on therein, the phrase "the validity of the premises, relating to management's responsibilities, on which an audit is conducted" should be stated more clearly and directly. We would like to see greater emphasis of the fact that management representations are not, themselves, a strong form of audit evidence.

## Appendix B Additional Comments

### Paragraph 7

We suggest that the phrase “including internal control” in the first sentence be changed to “internal control relevant to financial statements” or “internal controls over financial reporting”

### Paragraph 8

We suggest that the second sentence “The representation shall include” be changed to “The representation shall also include”, and in the third bullet, “measured or disclosed...” be changed to “measured and/or disclosed...”

### Paragraph A1

In terms of “ordinarily” in the second sentence, we are not aware of the situation where management is not responsible for preparing and presenting the financial statements. The inclusion of “ordinarily” gives rise to the misconception that there are situations where management is not responsible for financial statements. Alternatively, we are aware that there are situations where managements may also have the role of the governance function, but we believe financial statements are always prepared by management. If there are situations where management is not responsible, the definition of “General written representation” in Para.4(b) should be reconsidered, in terms of whether the definition only includes “management’s responsibilities”, and is not intended to include others.

### Paragraph A3

We question whether it is practical for the auditor to agree with the engaging party, prior to accepting the engagement, on who all the relevant parties are, considering the wide-spread nature of the responsible parties. We encourage the Board to deliberate this.

### Paragraph A4

We suggest that the last sentence be changed to “For example, an auditor could not conclude that sufficient and appropriate audit evidence has been available”.

### Paragraph A5

We suggest that the Board change the phrase “other audit evidence” to be “corroborating audit evidence”.

### Paragraph A8

We question whether specific written representations need to cover the entire period to which audit reports are addressed. We think that some specific written representations deal with premises or managements’ beliefs for particular transactions at the time they are accounted for, which may vary or even diminish over time.

### Paragraph A10

We are not sure in which situation auditors believe it necessary or appropriate to agree representations with those charged with governance. It is also not clear whether this intends general written representations, specific written representations, or both. We recommend that the Board clarify this.

### Paragraph A14

We expect the Board to develop a better example of specific written representation referring to assumptions or premises in estimates, rather than the factual representation, to be in line with the practical use of specific written representations.

### **Paragraph A19**

The cross-reference embedded at the heading “Evaluating the Reliability of Written Representations”, referring to para15-16 should be changed to para15-16 and 18.

### **Appendix 2**

We welcome the inclusion of this appendix which, we expect, may help facilitate auditors’ understanding of this standard and hence promote greater consistency in practice. In this connection, followings are our suggestions for the Board to further improve the appendix:

- Emphasis should be given to the fact that inclusion of the specific written representations to the general representation does not alter the nature of representation itself. Changing locations may help management’s understanding for importance of specific representation, but we believe it does not change the nature of representation and the expected auditor’s reporting reaction at their inability to obtain representations in accordance with this ISA and ISA705.
- The sub-heading “*internal control*” to “*internal control relevant to financial statements*” or “*internal controls over financial reporting*”.