

MEMORANDUM

TO: IAASB CAG

FROM: David Damant

DATE: 4th May 2006

RE: WRITTEN REPRESENTATIONS – AGENDA PAPER L

Agenda paper L, Written Representations, summarises the position on the IAASB project on Written Representations. It notes that a revised and redrafted version of Proposed ISA 580 was considered by the IAASB at its meeting in March 2006, and that although the proposals in the draft were broadly supported by the Board one or two members had expressed reservations about some of the proposed requirements.

I have subsequently taken part in two or three conversations concerning the proposals on Written Representations and with the input from these conversations I have generated the following additional questions for consideration by the CAG. I should emphasise that these questions are by no means a complete set of additional questions which might be raised had more time been available. The points raised may also reflect the viewpoint of certain jurisdictions as opposed to others; thus, for example, in the United States general representations are already of considerable length.

1. *Where representations are sought from management (as Appendix I envisages) that they have disclosed ‘all information’ in relation to such matters as fraud, possible non compliance with laws, liens and encumbrances, should this not clearly be allowed to be ‘to the best of our knowledge and belief’ ? In fact, the documentation may indicate that it is the high level representations which are not subject to the caveat “to the best of our knowledge and belief” whereas the lower level representatives (for example health and safety) are so covered. This distinction could perhaps be clearer. On many of the lower level matters, the board of directors of most multinationals would not be able to give such an unqualified representation – or if they did, would it not be unsafe to rely on it to any realistic extent?*
2. *How far does the fact that general representations are regarded as audit evidence (whereas specific representations are stated not to be) take away from the responsibility of auditors to provide reasonable assurance? The answer to the question as stated might be that the responsibility of auditors remains, whatever the status of the general representation. But this may not be clear to non-practitioners.*
3. *Is it not possible to reach a conclusion on whether the Auditor must seek general representations, separately from a consideration of the impact of management not providing such representations?*

4. *Is an adequate case made for the non-supply of general representations automatically resulting in either withdrawal from the engagement or a disclaimer of opinion, whilst this is not the automatic result of the non-supply of specific representations?*
5. *Could there be further consideration of the possibility that an auditor could, as an alternative, give a qualified opinion, in appropriate cases, where some of the general representations sought have not been received?*
6. *The suggested draft of a General Written Representations letter (Appendix 1 to the CAG Reference Paper L-1) contains two types of representation: those in regard to the framework of responsibility for the preparation of financial statements generally, and for establishing and maintaining effective internal controls, and those in relation to the particular financial statements in question. Is there proportionality in the treatment proposed? Is the impact (on the auditor's opinion on the financial statements) of the non-supply of each the general representations set out in Appendix 1 the same? Should there be a different conclusion in relation to those representations on overall responsibilities from those in relation to the particular financial statements?*
7. *Whether or not management's responsibility for the preparation of financial statements is enshrined in local law appears be the only consideration in deciding whether or not the provision of general representations is a pre-requirement for the auditor giving an opinion. Should there perhaps be further discussion of the other matters listed in Appendix 1 to the proposed ISA, before reaching such a conclusion?*