

## AU-C Section 580

### *Written Representations*

Source: SAS No. 122.

Effective for audits of financial statements for periods ending on or after December 15, 2012.

#### Introduction

##### Scope of This Section

.01 This section addresses the auditor's responsibility to obtain written representations from management and, when appropriate, those charged with governance in an audit of financial statements.

.02 Exhibit D, "List of AU-C Sections Containing Requirements for Written Representations," lists other AU-C sections containing subject matter-specific requirements for written representations. The specific requirements for written representations of other AU-C sections do not limit the application of this section.

##### Written Representations as Audit Evidence

.03 *Audit evidence* is the information used by the auditor in arriving at the conclusions on which the auditor's 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. (Ref: par. .A1)

.04 Although written representations provide necessary audit evidence, they complement other auditing procedures and do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, obtaining reliable written representations does not affect the nature or extent of other audit procedures that the auditor applies to obtain audit evidence about the fulfillment of management's responsibilities or about specific assertions.

##### Effective Date

.05 This section is effective for audits of financial statements for periods ending on or after December 15, 2012.

##### Objectives

.06 The objectives of the auditor are to

- a. obtain written representations from management and, when appropriate, those charged with governance that they believe that they have fulfilled their responsibility for the preparation and fair

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<sup>1</sup> Paragraph .05 of section 500, *Audit Evidence*.

presentation of the financial statements and for the completeness of the information provided to the auditor;

- b. support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of written representations if determined necessary by the auditor or required by other AU-C sections; and
- c. respond appropriately to written representations provided by management and, when appropriate, those charged with governance or if management or, when appropriate, those charged with governance do not provide the written representations requested by the auditor.

## Definition

.07 For purposes of generally accepted auditing standards, the following term has the meaning attributed as follows:

**Written representation.** A written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. Written representations in this context do not include financial statements, the assertions therein, or supporting books and records.

.08 For purposes of this section, references to *management* are to be read as "management and, when appropriate, those charged with governance" unless the context suggests otherwise.

## Requirements

### Management From Whom Written Representations Are Requested

.09 The auditor should request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned. (Ref: par. .A2–.A6)

### Written Representations About Management’s Responsibilities

#### *Preparation and Fair Presentation of the Financial Statements*

.10 The auditor should request management to provide a written representation that it has fulfilled its responsibility, as set out in the terms of the audit engagement,

- a. for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; and
- b. for 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.<sup>2</sup> (Ref: par. .A7–.A10, .A22, and .A29)

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<sup>2</sup> Paragraph .06b(i–ii) of section 210, *Terms of Engagement*.

**Information Provided and Completeness of Transactions**

**.11** The auditor should request management to provide written representations that

- a. it has provided the auditor with all relevant information and access, as agreed upon in the terms of the audit engagement, and
- b. all transactions have been recorded and are reflected in the financial statements. (Ref: par. .A7–.A10, .A22, and .A29)

**Other Written Representations****Fraud**

**.12** The auditor should request management to provide written representations that it

- a. acknowledges its responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud;
- b. has disclosed to the auditor the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- c. has disclosed to the auditor its knowledge of fraud or suspected fraud affecting the entity involving
  - i. management,
  - ii. employees who have significant roles in internal control, or
  - iii. others when the fraud could have a material effect on the financial statements; and
- d. has disclosed to the auditor its knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others. (Ref: par. .A11)

**Laws and Regulations**

**.13** The auditor should request management to provide written representations that all instances of identified or suspected noncompliance with laws and regulations whose effects should be considered by management when preparing financial statements have been disclosed to the auditor.<sup>3</sup>

**Uncorrected Misstatements**

**.14** The auditor should request management to provide written representations about whether it believes the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the financial statements as a whole. A summary of such items should be included in, or attached to, the written representation. (Ref: par. .A12)

**Litigation and Claims**

**.15** The auditor should request management to provide written representations that all known actual or possible litigation and claims whose effects should be considered by management when preparing the financial statements

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<sup>3</sup> Paragraph .A18 of section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*.

have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### ***Estimates***

.16 The auditor should request management to provide written representations about whether it believes significant assumptions used by it in making accounting estimates are reasonable. (Ref: par. .A13–.A14)

### ***Related Party Transactions***

.17 The auditor should request management to provide written representations that (Ref: par. .A15–.A16)

- a. it has disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which it is aware and
- b. it has appropriately accounted for and disclosed such relationships and transactions.

### ***Subsequent Events***

.18 The auditor should request management to provide written representations that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed. (Ref: par. .A17)

### ***Additional Written Representations About the Financial Statements***

.19 Other AU-C sections require the auditor to request written representations. If, in addition to such required representations, the auditor determines that it is necessary to obtain one or more written representations to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements, the auditor should request such other written representations. (Ref: par. .A18–.A22 and .A29)

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

.20 The date of the written representations should be as of the date of the auditor's report on the financial statements. The written representations should be for all financial statements and period(s) referred to in the auditor's report. (Ref: par. .A23–.A26)

### ***Form of Written Representations***

.21 The written representations should be in the form of a representation letter addressed to the auditor. (Ref: par. .A27–.A28)

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

#### ***Doubt About the Reliability of Written Representations***

.22 If the auditor has concerns about the competence, integrity, ethical values, or diligence of management or about management's commitment to,

or enforcement of, these, the auditor should determine the effect that such concerns may have on the reliability of representations (oral or written) and audit evidence in general. (Ref: par. .A30)

**.23** In particular, if written representations are inconsistent with other audit evidence, the auditor should perform audit procedures to attempt to resolve the matter. If the matter remains unresolved, the auditor should reconsider the assessment of the competence, integrity, ethical values, or diligence of management or of management's commitment to, or enforcement of, these and should determine the effect that this may have on the reliability of representations (oral or written) and audit evidence in general. (Ref: par. .A31)

**.24** If the auditor concludes that the written representations are not reliable, the auditor should take appropriate action, including determining the possible effect on the opinion in the auditor's report in accordance with section 705, *Modifications to the Opinion in the Independent Auditor's Report*, considering the requirement in paragraph .25 of this section.

### ***Written Representations About Management's Responsibilities***

**.25** The auditor should disclaim an opinion on the financial statements in accordance with section 705 or withdraw from the engagement if (Ref: par. .A32–.A33)

- a. the auditor concludes that sufficient doubt exists about the integrity of management such that the written representations required by paragraphs .10–.11 are not reliable or
- b. management does not provide the written representations required by paragraphs .10–.11.

### ***Requested Written Representations Not Provided***

**.26** If management does not provide one or more of the requested written representations, the auditor should

- a. discuss the matter with management;
- b. reevaluate the integrity of management and evaluate the effect that this may have on the reliability of 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 section 705, considering the requirement in paragraph .25 of this section. (Ref: par. .A34)

## **Application and Other Explanatory Material**

### **Written Representations as Audit Evidence (Ref: par. .03)**

**.A1** Written representations are an important source of audit evidence. If management modifies or does not provide the requested written representations, it may alert the auditor to the possibility that one or more significant issues 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.

## Management From Whom Written Representations Are Requested (Ref: par. .09)

**.A2** Written representations are requested from those with overall responsibility for financial and operating matters whom the auditor believes are responsible for, and knowledgeable about, directly or through others in the organization, the matters covered by the representations, including the preparation and fair presentation of the financial statements. Those individuals may vary depending on the governance structure of the entity; 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, also are responsible for the preparation and fair presentation of the financial statements.

**.A3** Due to its responsibility for the preparation and fair presentation of the financial statements and its responsibility 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 the financial statements and the assertions therein on which to base the written representations.

**.A4** In some cases, however, management may decide to make inquiries of others who participate in preparing the financial statements and assertions therein, including individuals who have specialized knowledge relating to the matters about which written representations are requested. Such individuals may include the following:

- An actuary responsible for actuarially determined accounting measurements
- Staff engineers who may have responsibility for environmental liability measurements
- Internal counsel who may provide information essential to provisions for legal claims

**.A5** 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 inquiries as it considered appropriate to place it in the position to be able to make the requested written representations. It is not expected that such inquiries would usually require a formal internal process beyond those already established by the entity.

**.A6** In some cases, management may include in the written representations qualifying language to the effect that representations are made to the best of its knowledge and belief. It is reasonable for the auditor to accept such wording if, in the auditor's professional judgment, the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.

## Written Representations About Management's Responsibilities (Ref: par. .10–.11)

**.A7** Audit evidence obtained during the audit that management has fulfilled the responsibilities referred to in paragraphs .10–.11 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 fairly

presented the financial statements and provided information to the auditor on the basis of the agreed acknowledgment and understanding of its responsibilities. For example, the auditor could not conclude that management has provided the auditor with all relevant information agreed upon in the terms of the audit engagement without asking management whether, and receiving confirmation that, such information has been provided.

**.A8** The written representations required by paragraphs .10–.11 draw on the agreed acknowledgment and understanding of management of its responsibilities in the terms of the audit engagement by requesting confirmation that it has fulfilled them. In addition to requesting management to confirm that it has fulfilled its responsibilities, the auditor also may ask management to reconfirm its acknowledgment and understanding of those responsibilities in written representations. This is common 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,
- any indication exists that management misunderstands those responsibilities, or
- changes in circumstances make it appropriate to do so.

Consistent with the requirement of section 210, *Terms of Engagement*, such reconfirmation of management's acknowledgment and understanding of its responsibilities is unconditional and is not made subject to the best of management's knowledge and belief (as discussed in paragraph .A6 of this section).

**.A9** Relevant information may include such matters as the following:

- Completeness and availability of all minutes of meetings of stockholders, directors, and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared
- Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices

### ***Considerations Specific to Governmental Entities***

**.A10** The legal or regulatory requirements for audits of the financial statements of governmental 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 governmental entity is conducted may give rise to additional written representations. These may include written representations confirming that transactions and events have been carried out in accordance with applicable law or regulation.

## **Other Written Representations**

### ***Fraud (Ref: par. .12)***

**.A11** The written representations relating to fraud required by paragraph .12 are important for the auditor to obtain, regardless of the size of the entity, because of the nature of fraud and the difficulties encountered by auditors in detecting material misstatements in the financial statements resulting from fraud.

**Uncorrected Misstatements (Ref: par. .14)**

.A12 Because the preparation of the financial statements requires management to adjust the financial statements to correct material misstatements, the auditor is required to request management to provide a written representation about uncorrected misstatements. In some circumstances, management may not believe that certain uncorrected misstatements are misstatements. For that reason, management may want to add to their written representation words such as "We do not agree that items . . . and . . . constitute misstatements because [*description of reasons*]." Obtaining this representation does not, however, relieve the auditor of the need to form a conclusion on the effect of uncorrected misstatements in accordance with section 450, *Evaluation of Misstatements Identified During the Audit*.

**Estimates (Ref: par. .16)**

.A13 Depending on the nature, materiality, and extent of estimation uncertainty, written representations about accounting estimates recognized or disclosed in the financial statements may include representations

- about the appropriateness of the measurement processes, including related assumptions and models, used by management in determining accounting estimates in the context of the applicable financial reporting framework and the consistency in the application of the processes.
- that the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity when relevant to the accounting estimates and disclosures.
- that disclosures related to accounting estimates are complete and appropriate under the applicable financial reporting framework.
- that no subsequent event has occurred that would require adjustment to the accounting estimates and disclosures included in the financial statements.

.A14 For those accounting estimates not recognized or disclosed in the financial statements, written representations also may include representations about the following:

- The appropriateness of the basis used by management for determining that the criteria of the applicable financial reporting framework for recognition or disclosure have not been met<sup>4</sup>
- The appropriateness of the basis used by management to overcome a presumption relating to the use of fair value set forth under the entity's applicable financial reporting framework for those accounting estimates not measured or disclosed at fair value

**Related Parties (Ref: par. .17)**

.A15 Circumstances in which it may be appropriate to obtain written representations about related parties from those charged with governance in addition to management include the following:

- When they have approved specific related party transactions that (a) materially affect the financial statements or (b) involve management

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<sup>4</sup> Paragraph .A121 of section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

- When they have made specific oral representations to the auditor on details of certain related party transactions
- When they have financial or other interests in the related parties or the related party transactions

.A16 The auditor also may decide to obtain written representations regarding specific assertions that management may have made, such as a representation that specific related party transactions do not involve undisclosed side agreements.

### ***Subsequent Events (Ref: par. .18)***

.A17 Section 560, *Subsequent Events and Subsequently Discovered Facts*, addresses circumstances when the auditor includes an additional date on the auditor's report (that is, dual-dates the auditor's report for a revision relating to a subsequent event).<sup>5</sup> In such circumstances, the auditor may determine that obtaining additional representations relating to the subsequent event is appropriate.

### ***Additional Written Representations About the Financial Statements (Ref: par. .19)***

.A18 In addition to the written representations required by paragraphs .10–.18, the auditor may consider it necessary to request other written representations about the financial statements. Such written representations may supplement, but do not form part of, the written representations required by paragraphs .10–.18. They may include representations about the following:

- Whether the selection and application of accounting policies are appropriate
- Whether matters such as the following, when relevant 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
  - Liabilities, both actual and contingent
  - Title to, or control over, assets and the liens or encumbrances on assets and assets pledged as collateral
- Aspects of laws, regulations, and contractual agreements that may affect the financial statements, including noncompliance

Exhibit B, "Illustrative Specific Written Representations," contains illustrations of additional representations that may be appropriate in certain situations.

### ***Additional Written Representations About Information Provided to the Auditor***

.A19 In addition to the written representation required by paragraph .11, the auditor may consider it necessary to request management to provide a written representation that it has communicated to the auditor all deficiencies in internal control of which management is aware.

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<sup>5</sup> Paragraph .13 of section 560, *Subsequent Events and Subsequently Discovered Facts*.

### **Written Representations About Specific Assertions**

**.A20** When obtaining evidence about or evaluating 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 thereof, of any other information obtained during the course of the audit that may be inconsistent with management's judgment or intent

**.A21** 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 regarding, 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: par. .10-.11 and .19)**

**.A22** Management's representations may be limited to matters that are considered either individually or collectively material to the financial statements, provided management and the auditor have reached an understanding on materiality for this purpose. Materiality may be different for different representations. A discussion of materiality may be included explicitly in the representation letter in either qualitative or quantitative terms. Materiality considerations do not apply to those representations that are not directly related to amounts included in the financial statements (for example, management's representations about the premise underlying the audit). In addition, because of the possible effects of fraud on other aspects of the audit, materiality would not apply to management's acknowledgment regarding its responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

### **Date of, and Period(s) Covered by, Written Representations (Ref: par. .20)**

**.A23** Because written representations are necessary audit evidence, 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 of the date of the auditor's report on the financial statements.

**.A24** 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. When this is the case, it may be necessary to request an updated written representation.

**.A25** The written representations cover all periods referred to in the auditor's report because management needs to reaffirm that the written representations 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 written representations relating to the prior periods by addressing whether there are any changes to such written representations and, if so, what they are.

**.A26** Situations may arise in which current management was 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 a whole. Accordingly, the requirement for the auditor to request from them written representations that cover the whole of the relevant period(s) still applies.

### **Form of Written Representations (Ref: par. .21)**

**.A27** Occasionally, circumstances may prevent management from signing the representation letter and returning it to the auditor on the date of the auditor's report. In those circumstances, the auditor may accept management's oral confirmation, on or before the date of the auditor's report, that management has reviewed the final representation letter and will sign the representation letter without exception as of the date of the auditor's report thereby providing sufficient appropriate audit evidence for the auditor to date the report. However, possession of the signed management representation letter prior to releasing the auditor's report is necessary because paragraph .21 requires that the representations be in the form of a written letter from management. Furthermore, when there are delays in releasing the report, a fact may become known to the auditor that, had it been known to the auditor at the date of the auditor's report, might affect the auditor's report and result in the need for updated representations. Section 560 addresses the auditor's responsibilities in such circumstances.

**.A28** Exhibit A, "Illustrative Representation Letter," provides an illustrative example of a representation letter.

### **Communication With Those Charged With Governance (Ref: par. .10–.11 and .19)**

**.A29** Section 260, *The Auditor's Communication With Those Charged With Governance*, requires the auditor to communicate with those charged with governance the written representations that the auditor has requested from management.<sup>6</sup>

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

### ***Doubt About the Reliability of Written Representations (Ref: par. .22–.23)***

**.A30** Concerns about the competence, integrity, ethical values, or diligence of management or about its commitment to, or enforcement of, these may 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 withdrawing from the engagement, when withdrawal

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<sup>6</sup> Paragraph .14d of section 260, *The Auditor's Communication With Those Charged With Governance*.

is possible under applicable law or regulation, unless those charged with governance put in place appropriate corrective measures. Such measures, however, may not be sufficient to enable the auditor to issue an unmodified audit opinion.

**.A31** In the case of identified inconsistencies between one or more written representations and audit evidence obtained from another source, the auditor may consider whether the risk assessment remains appropriate and, if not, may revise the risk assessment and determine the nature, timing, and extent of further audit procedures to respond to the assessed risks.

### ***Written Representations About Management's Responsibilities*** **(Ref: par. .25)**

**.A32** As explained in paragraph .A7, the auditor is not able to judge solely on other audit evidence whether management has fulfilled the responsibilities referred to in paragraphs .10–.11. Therefore, if, as described in paragraph .25a, the auditor concludes that the written representations about 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. Section 705 requires the auditor to disclaim an opinion on the financial statements in such circumstances.<sup>7</sup>

**.A33** 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 fulfillment of its responsibility for the preparation and fair presentation of the financial statements may state that management believes that, except for material noncompliance with a particular requirement of the applicable financial reporting framework, the financial statements are prepared and fairly presented in accordance with that framework. The requirement in paragraph .25 does not apply because the auditor concluded that management has provided reliable written representations. However, the auditor is required to consider the effect of the noncompliance on the opinion in the auditor's report in accordance with section 705.
- the written representation about the responsibility of management to provide the auditor with all relevant information agreed upon in the terms of the audit engagement may state that management believes that, except for information destroyed in a fire, it has provided the auditor with such information. The requirement in paragraph .25 does not apply because the auditor concluded that management has provided reliable written representations. However, 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 in accordance with section 705.

### ***Requested Written Representations Not Provided (Ref: par. .26)***

**.A34** Management's refusal to furnish written representations constitutes a limitation on the scope of the audit. Such refusal is often sufficient to preclude

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<sup>7</sup> Paragraph .10 of section 705, *Modifications to the Opinion in the Independent Auditor's Report*.

an unmodified opinion and, in particular with respect to the representations in paragraphs .12–.18, may cause an auditor to disclaim an opinion or withdraw from the engagement when withdrawal is possible under applicable law or regulation. However, based on the nature of the representations not obtained or the circumstances of the refusal, the auditor may conclude that a qualified opinion is appropriate.

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## Exhibit A—Illustrative Representation Letter

The following illustrative letter includes written representations that are required by this and other AU-C sections in effect for audits of financial statements for periods ending on or after December 15, 2012. It is assumed in this illustration that the applicable financial reporting framework is accounting principles generally accepted in the United States, that the requirement in section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, to obtain a written representation is not relevant, and that no exceptions exist 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, which comprise the balance sheet as of December 31, 20XX, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Except where otherwise stated below, immaterial matters less than \$*[insert amount]* collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

We confirm that *[, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves] [as of (date of auditor's report),]*:

### *Financial Statements*

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated *[insert date]*, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. (par. .10a)
- We acknowledge our responsibility for 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. (par. .10b)
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud. (par. .12a)

- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. (par. .16)
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. (par. .17b)
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. (par. .18)
- 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. (par. .14)
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP. (par. .15)

[Any other matters that the auditor may consider appropriate (see paragraph .A21).]

*Information Provided*

- We have provided you with:
  - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters; (par. .11a)
  - Additional information that you have requested from us for the purpose of the audit; (par. .11a) and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. (par. .11a)
- All transactions have been recorded in the accounting records and are reflected in the financial statements. (par. .11b)
- 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. (par. .12b)
- We have [no knowledge of any] [disclosed to you all information that we are aware of regarding] fraud or suspected fraud that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others when the fraud could have a material effect on the financial statements (par. .12c)
- We have [no knowledge of any] [disclosed to you all information that we are aware of regarding] allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others. (par. .12d)

- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements. (par. .13)
- We [*have disclosed to you all known actual or possible*] [*are not aware of any pending or threatened*] litigation, claims, and assessments whose effects should be considered when preparing the financial statements [and we have not consulted legal counsel concerning litigation, claims, or assessments] (par. .15)
- 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. (par. .17a)

[*Any other matters that the auditor may consider necessary (see paragraph A21).*]

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[*Name of Chief Executive Officer and Title*]

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[*Name of Chief Financial Officer and Title*]

[Revised, March 2012, to reflect conforming changes necessary due to the issuance of SAS No. 122. Revised, August 2012, to reflect conforming changes necessary due to the issuance of SAS No. 126.]

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## Exhibit B—Illustrative Specific Written Representations

As discussed in paragraph .19, the auditor may determine that a specific written representation is necessary to corroborate other audit evidence. Certain AICPA Audit and Accounting Guides recommend that the auditor obtain written representations concerning matters that are unique to a particular industry. The following is a list of additional representations that may be appropriate in certain situations. This list is not intended to be all-inclusive. The existence of a condition listed subsequently does not mean that the representation is required; professional judgment is necessary to determine whether corroborative audit evidence in the form of a specific written representation is necessary.

<i>Condition</i>	<i>Illustrative Specific Written Representation</i>
<b>General</b>	
Unaudited interim information accompanies the financial statements.	The unaudited interim financial information accompanying [ <i>presented in Note X to</i> ] the financial statements for the [ <i>identify all related periods</i> ] has been prepared and fairly presented in conformity with generally accepted accounting principles applicable to interim financial information. The accounting principles used to prepare the unaudited interim financial information are consistent with those used to prepare the audited financial statements.
The effect of a new accounting principle is not known.	We have not completed the process of evaluating the effect that will result from adopting the guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update 20YY-XX, as discussed in Note [X]. The company is therefore unable to disclose the effect that adopting the guidance in FASB Accounting Standards Update 20YY-XX will have on its financial position and the results of operations when such guidance is adopted.
Financial circumstances are strained, with disclosure of management's intentions and the entity's ability to continue as a going concern.	Note [X] to the financial statements discloses all of the matters of which we are aware that are relevant to the company's ability to continue as a going concern, including significant conditions and events, and management's plans.
The possibility exists that the value of specific significant long-lived assets or certain identifiable intangibles may be impaired.	We have reviewed long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have appropriately recorded the adjustment.

*(continued)*

<b><i>Condition</i></b>	<b><i>Illustrative Specific Written Representation</i></b>
<b><i>General</i></b>	
<p>The entity has a variable interest in another entity.</p>	<p>Variable interest entities (VIEs) and potential VIEs and transactions with VIEs and potential VIEs have been properly recorded and disclosed in the financial statements in accordance with generally accepted accounting principles.</p> <p>We have considered both implicit and explicit variable interests in (a) determining whether potential VIEs should be considered VIEs, (b) calculating expected losses and residual returns, and (c) determining which party, if any, is the primary beneficiary.</p> <p>We have provided you with lists of all identified variable interests in (i) VIEs, (ii) potential VIEs that we considered but judged not to be VIEs, and (iii) entities that were afforded the scope exceptions of Financial Accounting Standards Board (FASB) <i>Accounting Standards Codification</i> (ASC) 810, <i>Consolidation</i>.</p> <p>We have advised you of all transactions with identified VIEs, potential VIEs, or entities afforded the scope exceptions of FASB ASC 810.</p> <p>We have made available all relevant information about financial interests and contractual arrangements with related parties, de facto agents and other entities, including but not limited to, their governing documents, equity and debt instruments, contracts, leases, guarantee arrangements, and other financial contracts and arrangements.</p> <p>The information we provided about financial interests and contractual arrangements with related parties, de facto agents and other entities includes information about all transactions, unwritten understandings, agreement modifications, and written and oral side agreements.</p> <p>Our computations of expected losses and expected residual returns of entities that are VIEs and potential VIEs are based on the best information available and include all reasonably possible outcomes.</p> <p>Regarding entities in which the company has variable interests (implicit and explicit), we have provided all information</p>

<b>Condition</b>	<b><i>Illustrative Specific Written Representation</i></b>
<b><i>General</i></b>	
	<p>about events and changes in circumstances that could potentially cause reconsideration about whether the entities are VIEs or whether the company is the primary beneficiary or has a significant variable interest in the entity.</p> <p>We have made and continue to make exhaustive efforts to obtain information about entities in which the company has an implicit or explicit interest but that were excluded from complete analysis under FASB ASC 810 due to lack of essential information to determine one or more of the following: whether the entity is a VIE, whether the company is the primary beneficiary, or the accounting required to consolidate the entity.</p>
The work of a specialist has been used by the entity.	We agree with the findings of specialists in evaluating the [ <i>describe assertion</i> ] and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.
<b><i>Assets</i></b>	
<b><i>Cash</i></b> Disclosure is required of compensating balances or other arrangements involving restrictions on cash balances, lines of credit, or similar arrangements.	Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed.
<b><i>Financial Instruments</i></b> Management intends to and has the ability to hold to maturity debt securities classified as held-to-maturity.	Debt securities that have been classified as held-to-maturity have been so classified due to the company's intent to hold such securities, to maturity and the company's ability to do so. All other debt securities have been classified as available-for-sale or trading.
Management considers the decline in value of debt or equity securities to be temporary.	We consider the decline in value of debt or equity securities classified as either available-for-sale or held-to-maturity to be temporary.

(continued)

<b>Condition</b>	<b>Illustrative Specific Written Representation</b>
<b>Assets</b>	
Management has determined the fair value of significant financial instruments that do not have readily determinable market values.	The methods and significant assumptions used to determine fair values of financial instruments are as follows: <i>[describe methods and significant assumptions used to determine fair values of financial instruments]</i> . The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
Financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk exist.	The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements: <ol style="list-style-type: none"> <li>1. The extent, nature, and terms of financial instruments with off-balance-sheet risk</li> <li>2. The amount of credit risk of financial instruments with off-balance-sheet risk and information about the collateral supporting such financial instruments</li> <li>3. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments</li> </ol>
<b>Investments</b> Unusual considerations are involved in determining the application of equity accounting.	<i>[For investments in common stock that are either nonmarketable or of which the entity has a 20 percent or greater ownership interest, select the appropriate representation from the following:]</i> <ul style="list-style-type: none"> <li>• The equity method is used to account for the company's investment in the common stock of <i>[investee]</i> because the company has the ability to exercise significant influence over the investee's operating and financial policies.</li> <li>• The cost method is used to account for the company's investment in the common stock of <i>[investee]</i> because the company does not have the ability to exercise significant influence over the investee's operating and financial policies.</li> </ul>

<b>Condition</b>	<b><i>Illustrative Specific Written Representation</i></b>
<b>Assets</b>	
The entity had loans to executive officers, nonaccrued loans or zero interest rate loans.	Loans to executive officers have been properly accounted for and disclosed.
<b>Liabilities</b>	
<p data-bbox="188 374 242 395"><i>Debt</i></p> <p data-bbox="188 406 475 510">Short-term debt could be refinanced on a long-term basis and management intends to do so.</p>	<p data-bbox="541 374 1011 557">The company has excluded short-term obligations totaling \$[amount] from current liabilities because it intends to refinance the obligations on a long-term basis. [Complete with appropriate wording detailing how amounts will be refinanced as follows:]</p> <ul data-bbox="541 567 1011 869" style="list-style-type: none"> <li data-bbox="541 567 1011 749">• The company has issued a long-term obligation [debt security] after the date of the balance sheet but prior to the issuance of the financial statements for the purpose of refinancing the short-term obligations on a long-term basis.</li> <li data-bbox="541 760 1011 869">• The company has the ability to consummate the refinancing, by using the financing agreement referred to in Note [X] to the financial statements.</li> </ul>
Tax-exempt bonds have been issued.	Tax-exempt bonds issued have retained their tax-exempt status.
<p data-bbox="188 965 250 986"><i>Taxes</i></p> <p data-bbox="188 996 454 1100">Management intends to reinvest undistributed earnings of a foreign subsidiary.</p>	We intend to reinvest the undistributed earnings of [name of foreign subsidiary].
<p data-bbox="188 1112 494 1164"><i>Pension and Postretirement Benefits</i></p> <p data-bbox="188 1175 506 1244">An actuary has been used to measure pension liabilities and costs.</p>	We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
Involvement with a multiemployer plan exists.	<p data-bbox="541 1260 1011 1338">We are unable to determine the possibility of a withdrawal liability in a multiemployer benefit plan.</p> <p data-bbox="762 1348 785 1369" style="text-align: center;">or</p> <p data-bbox="541 1380 980 1482">We have determined that there is the possibility of a withdrawal liability in a multiemployer plan in the amount of \$[XX].</p>

(continued)

<b><i>Condition</i></b>	<b><i>Illustrative Specific Written Representation</i></b>
<b><i>Liabilities</i></b>	
Postretirement benefits have been eliminated.	We do not intend to compensate for the elimination of postretirement benefits by granting an increase in pension benefits.  or  We plan to compensate for the elimination of postretirement benefits by granting an increase in pension benefits in the amount of \$[XX].
Employee layoffs that would otherwise lead to a curtailment of a benefit plan are intended to be temporary.	Current employee layoffs are intended to be temporary.
Management intends to either continue to make or not make frequent amendments to its pension or other postretirement benefit plans, which may affect the amortization period of prior service cost, or has expressed a substantive commitment to increase benefit obligations.	We plan to continue to make frequent amendments to the pension or other postretirement benefit plans, which may affect the amortization period of prior service cost.  or  We do not plan to make frequent amendments to the pension or other postretirement benefit plans.
<b><i>Equity</i></b>	
Capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions, or other requirements exist.	Capital stock repurchase options or agreements or capital stock reserved for options, warrants, conversions, or other requirements have been properly disclosed.

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## Exhibit C—Illustrative Updating Management Representation Letter

The following letter is presented for illustrative purposes only. It may be used in the circumstances described in paragraph .A17 of this section. Management need not repeat all of the representations made in the previous representation letter.

If matters to be disclosed to the auditor exist, they may be listed following the representation. For example, if an event subsequent to the date of the balance sheet has been disclosed in the financial statements, the final paragraph could be modified as follows: "To the best of our knowledge and belief, except as discussed in Note X to the financial statements, no events have occurred. . . ."

[Date]

To [Auditor]

In connection with your audit(s) of the [identification of financial statements] of [name of entity] as of [dates] and for the [periods] for the purpose of expressing an opinion as to whether the [consolidated] financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of [name of entity] in accordance with accounting principles generally accepted in the United States of America, you were previously provided with a representation letter under date of [date of previous representation letter]. No information has come to our attention that would cause us to believe that any of those previous representations should be modified.

To the best of our knowledge and belief, no events have occurred subsequent to [date of latest balance sheet reported on by the auditor] and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

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[Name of Chief Executive Officer and Title]

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[Name of Chief Financial Officer and Title]

[Paragraph added, March 2012, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

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## Exhibit D—List of AU-C Sections Containing Requirements for Written Representations

This exhibit identifies paragraphs in other AU-C sections that require specific written representations that may not be required for every audit. The list is not a substitute for considering the requirements and related application and other explanatory material in AU-C sections:

- Paragraph .19 of section 560, *Subsequent Events and Subsequently Discovered Facts*
- Paragraph .52 of section 700A, *Forming an Opinion and Reporting on Financial Statements*
- Paragraph .07g of section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*
- Paragraph .23 of section 935, *Compliance Audits*

In addition, certain AICPA Audit and Accounting Guides suggest written representations concerning matters that are unique to a particular industry.

[Paragraph renumbered, March 2012, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

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