

April 30, 2007

Mr. James Sylph
Executive Director, IAASB
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Re: Exposure Draft: *Proposed Revised and Redrafted International Standard on Auditing (ISA) 580, "Written Representations"*

Dear Mr. Sylph:

The American Institute of Certified Public Accountants (AICPA) is pleased to have the opportunity to comment on the above referenced exposure draft.

We commend the International Auditing and Assurance Standards Board (IAASB) on the issuance of this exposure draft. We believe that it provides useful clarity on written representations, including the importance of obtaining general written representations, and we support its issuance.

We respectfully submit our responses to questions for respondents. Editorial comments that may improve the quality, clarity, and effectiveness of the proposal are included in the accompanying appendix A. In addition, we suggest that an illustration of a representation letter that updates previous representations, as discussed in paragraph A8 of the proposed ISA, be provided in an Appendix to the ISA. A sample illustrative letter is attached as Appendix B to this letter.

Responses to Questions for Respondents

General Written Representations Regarding the Financial Statements and Internal Control

Question 1: Respondents are asked for their views on this matter.

We agree with the majority of the IAASB that the detailed elements of the representations regarding the financial statements should remain requirements and not moved to application material. We agree that the detailed elements of the representation are necessary as requirements to reinforce the implications of the overall representation about the preparation of the financial statements in accordance with the applicable financial reporting framework. We recognize that the standards and law may state that management is responsible for these elements. Nonetheless, it is necessary that management acknowledge its responsibility for each of these elements to the auditor. Retaining these details as requirements will help to avoid misunderstanding, and thereby

improve the quality of the representation received. We believe that moving this detail to the application material would weaken the standard and likely result in inconsistent application of the standard by auditors.

Question 2: Respondents are asked to comment on 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.

We agree with the requirement to request confirmation on the adequacy of internal control. This request is consistent with the structure of the representations regarding financial statements and completeness. Relevant parties are asked to represent (a) that they acknowledge their responsibility (for preparation and presentation of the financial statements, for designing, implementing and maintaining internal control, and for providing complete information) and (b) their belief about how they have discharged that responsibility (whether the financial statements fairly present, whether internal control is adequate, and that all information has been provided.) In addition, the auditor's report includes a statement about management's responsibility for internal control. If management is not willing to acknowledge this responsibility, it would be inappropriate to include such a statement in the auditor's report.

We believe this requirement facilitates appropriate dialogue between management and auditors about the responsibility for internal control, and facilitates a common understanding of weaknesses in internal control so they can be addressed during the course of the audit. We suggest that guidance be provided in the application material clarifying that this representation is based on relevant parties' knowledge and belief, having made *appropriate inquiries* to be able to provide such representation. Such inquiries need not entail a comprehensive assessment of the effectiveness of internal control.

Disclaimer of Opinion when General Written Representations are Not Obtained

Question 3: Respondents are asked to comment on 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 agree with the requirement 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 believe that these premises are fundamental to the audit. If management is unwilling to represent their responsibility for these fundamental premises, then the auditor is unable to obtain sufficient appropriate audit evidence. The effects of management's refusal to represent that they are responsible for the fundamental foundations underlying the audit are pervasive, and disclaiming an opinion is the only appropriate action under the circumstances. If, along with the refusal of management to provide the general written representations, the auditor becomes aware of

material misstatements in the financial statements, such circumstances should be discussed in the auditor's report.

We support the inclusion of the guidance set forth in the application material in paragraph A19.

Date of the Written Representations

Question 4: Respondents are asked to comment on the date of the general written representations.

We agree that the general written representations should be dated as of the same date as the auditor's report on the financial statements. The auditor dates the report as of the date when he or she has sufficient appropriate audit evidence to support the opinion. General written representations are necessary in order to have sufficient appropriate audit evidence, thus the general written representations cannot be dated after the auditor's report date. We do not advocate dating the general written representations earlier than the date of the auditor's report because the auditor is at risk for changes in circumstances between the two dates. The auditor would need to perform additional procedures to make sure that nothing has happened. Thus, there are practical problems regardless, and we believe that dating the general written representations as of the same date as the report date is the best approach.

Objective and Requirements

Question 5: Respondents are asked to consider whether the objective for the proposed revised ISA is appropriate, and whether the proposed requirements are appropriate responses to that objective.

We believe that the objective for the proposed revised ISA is appropriate, and that the proposed requirements are appropriate responses to that objective. We do not believe that the objective and related requirements with regard to specific assertions will result in auditors requesting specific written representations for all assertions. We do believe this standard will strengthen audit evidence for those assertions where sufficient appropriate audit evidence is otherwise not available, or intent or completeness is an issue.

Thank you for the opportunity to comment on this Exposure Draft. If you have any questions regarding the comments in this letter, please contact Sharon Walker at +1-212-596-6026, swalker@aicpa.org or Ahava Goldman at +1-212-596-6056, agoldman@aicpa.org.

Respectfully submitted,

/s/ Harold Monk
Chair, AICPA Auditing Standards Board

Appendix A - Editorial Comments

We offer the following specific paragraph-level comments for your consideration. Suggested new language is shown underlined; suggested deleted language is shown by strikethrough.

- **Para. 4(d)** — To clarify whose process is followed, we suggest the following insertion:

Relevant parties – Parties responsible for preparing and presenting the financial statements and assertions therein. Regarding specific assertions, relevant parties may also include individuals who have specialized knowledge about those specific assertions and are part of the process followed **by the entity** in preparing and presenting the financial statements and assertions therein.

- **Para. 6** — We are concerned that it may be unclear who is responsible for making inquiries, and suggest the following revision:

The auditor shall request that relevant parties provide written representations based on relevant parties' knowledge and belief. **Such knowledge and belief is based on relevant parties** having made appropriate inquiries for them to be able to provide such representations.

- **Para. 7** — We suggest the following revisions:

The auditor shall request relevant parties to provide the general written representations **set out in paragraphs 8-10** about the financial statements, including internal control, and the completeness of information made available to the auditor ~~set out in paragraphs 8-10~~ for all financial statements and periods covered by the auditor's report... Accordingly, ~~they~~ **general written representations** do not relieve the auditor of the responsibility to obtain other audit evidence.

- **Para. 8** — It is not clear what relevant parties are representing with regard to liabilities, both actual and contingent. We suggest the following revision:

- **Whether** liabilities, both actual and contingent, **have been recorded and where appropriate, disclosed;**

- **Para. 12**—The second sentence is unnecessarily repetitive with the first sentence of A12. We suggest the following:

Other ISAs contain requirements for specific written representations. In addition to those, ~~a specific written representation may be necessary to corroborate other audit evidence, particularly where judgment, intent or completeness is involved.~~ **The** auditor shall determine whether **other** specific written representations relating to specific assertions in the financial statements are necessary.

- **Para. 17**— To clarify that the premises are no longer valid because the auditor has concluded that the representations are not reliable, we suggest the following revisions:

~~When~~ **If** the auditor concludes ..., **then** the premises...

- **Para. A2**—For clarity, we suggest eliminating the use of the present tense to describe auditor action through the following revision:

The auditor applies professional judgment in identifying ~~auditor's identification of~~ relevant parties from whom specific written representations are to be requested **is a matter of professional judgment.**

- **Para. A4**—We agree that the auditor asking whether all relevant information has been made available is necessary and creates an expectation for management behavior, but unless management asserts this is so, the auditor cannot make a valid conclusion. We suggest the following revision:

For example, an auditor could not conclude that all relevant information has been made available without **the auditor** asking whether, **and management asserting that**, all such information had been made available.

- **Para. A7**—The second sentence is missing the word “written”; it should read “However, some general **written** representations...”
- **Para. A8**— We noted that, although under the heading of *Form and Date of General Written Representations*, the first sentence in paragraph A8 also discusses specific written representations. We suggest that the word “relevant” be added before the phrase “specific written representations. Also, we are concerned that the second sentence in this paragraph may be misinterpreted to mean that management could provide representations for an initial year and provide an updating representation letter for subsequent years. We suggest deleting this guidance or clarifying the second sentence, as follows, that updating pertains only to previous representations relating to prior periods:

A8. All periods covered by the auditor’s report on the financial statements need to be covered by the general written representations and **relevant** specific written representations because relevant parties need to reaffirm that the representations they previously made with respect to prior periods remain appropriate. The auditor and relevant parties may agree to a form of representation letter that updates previous representations **relating to prior periods** by addressing whether there are any changes to such representations and, if so, what they are.

- **Para. A9**—To avoid any confusion about relevant parties who are no longer part of the entity, we suggest the following revisions:

Situations may arise where **current management or other** relevant parties ~~who were in place~~ **not present** during the period being audited are not in place at the time the written representations are requested ~~all periods covered~~ by the auditor’s report. ~~Relevant~~ **Such** parties, ~~who were not in place during the period being audited,~~ may assert that they are not in a position to provide some or all of the **requested** representations ~~requested by~~ **because they were not in place during the auditor period**; however, this fact does not diminish their responsibilities. Accordingly, the auditor’s responsibility to obtain ~~is required to request~~ written representations from ~~them~~ **these relevant parties** is not affected.

- **Para. A10**—For clarity purposes, we suggest eliminating the word *ensure* from application material. Note that the wording in the requirement in Proposed ISA 260 (Redrafted), paragraph 14 (c) (iii), refers to *management*. We suggest the following revisions:

[Proposed] ISA 260 (Redrafted), "Communication with Those Charged with Governance" requires the auditor to communicate with those charged with governance the representations requested from relevant parties **management**. In some circumstances, it ~~The auditor may be appropriate for the auditor to request that~~ **provide** the representation letter ~~also be agreed by to~~ those charged with governance to ~~ensure that~~ **determine whether** all those charged with governance agree with the written representations that the auditor considers essential to forming an opinion on the financial statements.

- **Para. A12**—We do not suggest prohibiting multiple written representation letters but generally expect there would be only one. We suggest that the application material convey this by adding language such as the following:

When the specific written representation is requested from the same relevant parties that provide the general written representations, the specific written representation may be included in the general written representation letter.

We also suggest for clarity the following revision to the first sentence:

A specific written representation may be necessary to corroborate other audit evidence; ~~in particular,~~ **obtained, particularly...**

- **Para. A13**—We suggest revising the second sentence as follows:

In some cases, the auditor may obtain audit evidence **that either** supports ~~ing,~~ or ~~which is~~ inconsistent with,...

- **Para. A14**—The example provided is "where the source of a specific written representation is not independent of the entity." A written representation is defined as "Written statements provided by relevant parties from within the entity"; thus, the source of written representations is by definition not independent from the entity. We suggest the following revisions:

For example, a written response to a specific inquiry ~~in relation to~~ **about** the cost of an asset is not a substitute for the audit evidence ~~in relation~~ **relating** to such cost that the auditor would ordinarily expect to obtain. Furthermore, audit evidence is influenced by its source and nature. ~~For example, where~~ **and** the source of a specific written representation is not independent from the entity.

- **Para. A15**—We believe that this paragraph is not necessary and recommend its deletion. The first sentence is the rationale for dating the representation letter as of the same date as the auditor's report. The last two sentences do not add guidance.
- **Para. A16**—We commend the IAASB on introducing the term *threshold amount*. We believe this concept gives auditors the ability to come to an understanding with management without having to tell management what the materiality level for the audit is, and avoids wasting time with trivial amounts. We suggest the following revision for clarity:

For example it may not be appropriate to limit ~~representations~~ **representations** about the responsibilities of relevant parties or matters related to fraud because of qualitative considerations.

- **Para. A19** —It is not the modification of the representation but the underlying reason for such modification that may affect the auditor’s opinion. We suggest the following revision:

A written representation that has been modified from that requested by the auditor does not necessarily mean that relevant parties did not provide the written representation. However, **the underlying reason for** such modification may affect the opinion in the auditor’s report.

For clarity, we suggest eliminating the use of the present tense to describe auditor actions in the bullet list of examples. We suggest the following revisions

- ... However, the **requirement in ISA 705 for the auditor** ~~considers~~ **to consider** the effect of the noncompliance on the opinion in the auditor’s report ~~in accordance with ISA 705~~ **does apply...**
- ...However, the **requirement in ISA 315 (redrafted) for the auditor** ~~considers~~ **to consider** whether a material weakness in internal control existed and the effect thereof on the audit **does apply...**
- ... **However, the requirement in ISA 705 for the auditor to consider** ~~The auditor considers~~ 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 ISA 705~~ **does apply ...**

Appendix B
Illustrative Updating Representation Letter

The following illustrative letter may be used in the circumstances described in paragraph A8. Relevant parties need not repeat all of the representations made in the previous representation letter. If matters exist that should be disclosed to the auditor, they should be indicated by listing them 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 of the financial statements of ABC Company for the year ended December 31, 20XX¹ for the purpose of expressing an opinion as to whether the financial statements [give a true and fair view][are presented fairly, in all material respects,] in accordance with [specify the applicable financial reporting framework], 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, having made all appropriate inquiries, 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.

[Relevant Party and Title]

[Relevant Party and Title]

¹ Where the auditor reports on more than one period, the date is adjusted so that the letter pertains to all periods covered by the audit report.