

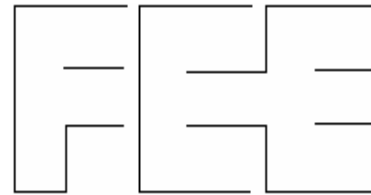
Date  
18 April 2007

Le Président

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Mr. J. Sylph  
Executive Director Professional Standards  
International Auditing and Assurance Standards Board (IAASB)  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017  
USA



Edcomments@ifac.org

Dear Mr. Sylph,

**Re: Exposure Draft – Proposed International Standards on Auditing 580 (Revised and Redrafted) –  
Written Representations**

As the representative organisation of the European accountancy profession, FEE is pleased to comment on the Exposure Draft – Proposed International Standard on Auditing (ISA) 580 (Revised and Redrafted), “Written Representations” (Proposed ISA 580).

**1. Main Comments**

Whilst we support in principle the aim of IAASB to revise and rewrite ISA 580, and can agree with the approach to specific written representations, FEE is of the opinion that some of the requirements proposed in ISA 580 in respect of general written representations are not necessary and need to be amended. Our concerns relate to the following matters, upon which we elaborate in responding to the questions raised by the IAASB below:

- Although FEE agrees that requesting certain general written representations is important, we consider that certain of the specific matters included in paragraph 8 on which the auditor shall obtain general written representations are unnecessary. Further, some of the representations currently required by paragraph 8 are best considered as ‘specific’ rather than ‘general’ representations;
- Paragraph 9: we do not agree with the proposal to extend the requirement to request written representations on internal control over the process of preparation and presentation of the financial statements to cover ‘adequacy’;
- Paragraph 11 is too prescriptive as regards the date of the general written representations;
- Paragraph 19 should not mandate the auditor disclaim his opinion when the general written representations are not obtained on the basis of the requirements presented in Proposed ISA 580, unless, in accordance with proposed redrafted ISA 705, the auditor judges that he has not obtained sufficient appropriate audit evidence on which to base the opinion, and the possible effects on the financial statements of that inability are considered both material and pervasive.

## **2. Answers to the questions of ED ISA 580**

### **2.1. Views on General Written Representations Regarding the Financial Statements and Internal Control**

*Rationale underlying our comments on paragraphs 8 and 9*

As stated in IAASB's Preface to the International Standards (December 2006), the objective of the audit is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. FEE believes that it is reasonable that auditors shall request certain general written representations relating to the financial statements and the related internal control, but it is unnecessary to require the auditors to request of relevant parties representations that go beyond the reasonable obligations of those parties in relation to these matters. Additional obligations for these parties should not in our view be the subject of auditing standards.

*Detail of paragraph 8*

FEE supports obtaining general representations that are necessary in virtually all cases. Examples of such representations are:

- Whether all transactions have been recorded (second bullet point of paragraph 8);
- Completeness of liabilities, both actual and contingent (second sub-bullet of third bullet point of paragraph 8);
- Title to or control over assets, and the liens or encumbrances on assets, and assets pledged as collateral (third sub-bullet of third bullet point of paragraph 8).

In our view, however, the following bullet points, of which some sub-bullets may not be applicable under particular financial reporting frameworks (including IFRS), included in paragraph 8, are unnecessary as general written representations in virtually all cases:

- The first bullet, dealing with the appropriateness of the selection and application of accounting policies. This aspect will follow from the applicable framework for financial reporting, even in case when the framework provides for certain 'options' in this regard;
- The first sub-bullet of the third bullet point, dealing with plans and intentions that may affect the carrying value or classification of assets or liabilities. In FEE's view, this representation is better considered as the potential subject-matter of a specific representation, not as a general one;
- The fourth sub-bullet of the third bullet point, dealing with aspects of contractual agreements that may affect the financial statements. FEE believes that this representation is also best considered as a potential specific representation rather than as a general one. Further, requiring the relevant parties to represent that *all* aspects of contractual agreements that may affect the financial statements, including non-compliance, have been recognised, measured or disclosed in the financial statements, takes account neither of judgement nor materiality.

The inclusion of the words "where relevant in view of the applicable financial reporting framework" confirm in our view that not all of the items included in the Proposed ISA 580 bullet points are necessary in virtually all cases.

In FEE's view, the representation on events subsequent to the period end could be included in the future ISA 560 rather than be included in Proposed ISA 580 paragraph 8.

### **2.2. Views 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**

In line with our comments on paragraphs 8 and 9 above, we do not agree with Proposed ISA 580 imposing on auditors that they shall request relevant parties to represent on the adequacy of internal control where this goes beyond what can reasonably be expected in this regard. Such a representation is likely, depending

on the jurisdiction, to create an expectation gap problem for management as well as for the auditor, for example if:

- Proposed ISA 580 were to require management to assert that internal control is effective, even though there exists no obligation so to assert;
- The auditors are not responsible for assessing the adequacy of the internal control system, or for reporting if the relevant parties' representation is inaccurate or misleading.

Such an expectation gap problem is likely to lead to unnecessary conflicts between management, their legal advisors and auditors about what is expected of relevant parties. This point is particularly important in view of existing paragraph 19 on which we comment below.

In conclusion, we recommend that paragraph 9 ends at '... error'. Paragraph A19 will need to be modified accordingly.

### **2.3. Views 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**

ISA 700 requires the auditor to conclude whether sufficient appropriate audit evidence has been obtained to reduce to an acceptably low level the risks of material misstatement of the financial statements in forming the auditor's opinion. FEE is of the opinion that the auditor needs to use professional judgment in deciding whether the impact of not obtaining general (or specific) written representations is such that the inability to obtain sufficient and appropriate audit evidence is material and pervasive. The standard should recognise the fact that there may be circumstances in which a failure to obtain general written representations as required by the draft need not necessarily lead to a disclaimer of opinion where the balance of other evidence is sufficient to support the auditors' opinion. We accept that the absence of required general (or specific) written representations will cause the auditor to consider whether sufficient evidence has been obtained; consequently the auditor is required to consider, in accordance with ISA 705, whether there needs to be a disclaimer of opinion. Therefore, the need for a disclaimer of opinion, as proposed in paragraph 19, should rather be regarded as a possibility rather than a necessity.

In FEE's view, the last line of the first sentence of paragraph 19 to the end of the paragraph should be re-written as follows:

*"... (see paragraph 17), the auditor shall consider whether, in view of the lack of reliable written representation, sufficient appropriate audit evidence has been obtained, and determine whether the possible effects on the financial statements are material and pervasive. If the auditor decides that these effects are indeed material and pervasive, in accordance with ISA 705 "Modifications to the Opinion in the Independent Auditor's Report" the auditor shall disclaim his opinion on the financial statements".*

### **2.4. Views on the date of the general written representations**

FEE requests IAASB to provide more flexibility with regard to the date of the general written representations (paragraph 11), in conformity with the greater degree of flexibility as to the date of the specific written representations (paragraph 13). Practically, it will also often be appropriate to obtain the detailed general and specific written representations at the same date; if an update is needed to cover the short subsequent period up to when the audit report is dated, this can be arranged. Within the Application Material, a paragraph might be inserted to explain how to determine the appropriate date of the general representations and to explain that the date of the general written representations may (i.e. need not always) be the date of the auditor's report and should not be subsequent to the auditor's report.

### **2.5. Views as to whether the objective for the proposed revised ISA is appropriate, and whether the proposed requirements are appropriate responses to that objective**

FEE believes that adding at the end of paragraph 3(b) the words 'where necessary' will clarify the nature of the auditor's objective in respect of the 'specific representations'.

Furthermore, FEE requests IAASB to consider adding a third objective to ISA 580:

*“(c) and to respond appropriately to the representations obtained.”*

### **3. Specific Comments**

#### **3.1. Comments on introduction and conforming amendment to ISA 210**

FEE believes the introduction section should be expanded as it is too brief to provide sufficient context for the rest of the document. In order to help auditors to explain to relevant parties the importance of this audit procedure, the introduction section could explain the governance background to requesting written representations, the different types of representation, and why written representations are required for audit purposes. Furthermore, auditors should be encouraged to explain to the relevant parties the reasons for the requested representations and the content thereof, as requesting representations involves not only a technical process of obtaining them, but also a social process of communication and explanation of their rationale, content and significance.

Regarding the conforming amendment to ISA 210, FEE believes ISA 210 should refer to the social process referred to above, i.e. the importance of the auditor’s communication with management or, where appropriate, those charged with governance, about the *rationale* for the general and specific representations, and their content and significance.

In line with our comments on paragraph 19 above, the third line of ISA 210 conforming amendment paragraph 5c should be amended to read “..., the auditor *may* often be unable to obtain sufficient appropriate audit evidence.”

#### **3.2. Further comments on requirements**

##### *Paragraph 6 – Individuals with specialized knowledge*

Definition 4(d) and paragraph A2 refer to individuals with specialized knowledge about specific assertions. FEE believes that there is merit in discussing further in the Application Material the need for the auditor to have such persons co-sign a (specific) representation (letter) together with those persons who have responsibility for the preparation of the financial statements. Further, FEE requests IAASB to explain whether, in general, a representation letter should be co-signed in the case of multiple relevant parties identified by the auditor, and what the consequences for the auditor might be in case just one (instead of every) co-signer refuses to provide his signature regarding the (specific) written representations.

##### *Paragraph 7 – General written representations*

In line with our previous comments about whether obtaining all the general written representations in the draft are necessary and whether not obtaining them should result in a disclaimer, we believe that the word ‘necessary’ in the fifth line should be deleted. The rest of the sentence is satisfactory.

#### **3.3. Comments on Application and Other Explanatory Material**

- a) *Paragraph A2* should make it clear that relevant parties are internal to the entity and are not, for example, externally appointed consultants.
- b) With respect to *Paragraph A16*, we are confused as to how materiality principles are to be applied to letters of representation. In order not to duplicate the guidance from ISA 320 on “Audit Materiality”, FEE suggests either that *Paragraph A16* should be cross-referenced to ISA 320 and the inter-relationship of the comments on thresholds with other materiality concepts should be explained or *Paragraph A16* should be deleted.

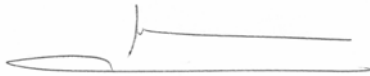
#### 4. Translation and wording issues

*Paragraph 14 – Management’s commitment to competence, communication and enforcement of integrity and ethical values, or diligence*

FEE is of the opinion that the words italicised in the sub-heading above in the second bullet point of paragraph 14, which appear elsewhere in the document as if it is an important phrase, are unnecessarily complex and could cause translation difficulties. A simpler phrase that captures the essence of what is meant is needed.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jacques Potdevin', written over a horizontal line.

Jacques Potdevin  
President