

## BASIS FOR CONCLUSIONS CANADIAN AUDITING STANDARD (CAS) 580, Written Representations

September 2009

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, Canadian Auditing Standard 580, *Written Representations*.

### Background

In December 2006, the International Auditing and Assurance Standards Board (IAASB) issued its Exposure Draft of International Auditing Standard (ISA) 580 (Revised and Redrafted), *Written Representations* (ED-ISA 580). The IAASB approved final ISA 580 in December 2007 subject to confirmation by the Public Interest Oversight Board (PIOB) that due process was followed. This confirmation was received in April 2008.

In February 2007, the AASB issued its Exposure Draft to adopt proposed ISA 580 as CAS 580 (ED-CAS 580) to replace Section 5370, MANAGEMENT REPRESENTATIONS. There were 10 respondents to ED-CAS 580 (identified below).

The AASB approved CAS 580 in March 2008. The Auditing and Assurance Standards Oversight Council reviewed due process followed by the AASB in the development of this CAS prior to its issuance in the CICA Handbook – Assurance.

### Purpose of this Basis for Conclusions

This Basis for Conclusions has been prepared to make Canadian stakeholders aware of the following.

- (a) A Basis for Conclusions prepared by IAASB staff for ISA 580 is available on the IAASB web site, and provides information on how the IAASB dealt with comments received on significant matters in response to the ED-ISA 580.
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its ED-CAS 580 is also available. This information is set out below.

### Significant Matters

#### AASB's Consideration of Amendments to ISA Wording

1. CAS 580 contains no amendment to the ISA wording. This is consistent with the position taken by the AASB in ED-CAS 580.

#### *Disclaimer of Opinion*

2. Paragraph 19 required the auditor to disclaim an opinion on the financial statements when management does not provide the requested written representations. A respondent suggested that this paragraph be amended to permit the auditor to either issue a qualified opinion or a disclaimer of opinion. The respondent was of the view that the results of the auditor's assessment of the situation should dictate how the auditor will proceed with the report (qualification or disclaimer).

3. As noted by the IAASB in its Basis for Conclusions for ISA 580, the original construction of the requirement in the ED-ISA 580 would have required the auditor to disclaim an opinion in the event that any of the detailed elements in the letter of representation were omitted by management. This was not the IAASB's intention. In finalizing ISA 580, the IAASB amended the wording in paragraph 20 to clarify that a disclaimer of the auditor's opinion is needed when:

- (a) The auditor concludes that there is sufficient doubt about the integrity of management such that the written representations required:
  - (i) that management has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement; or
  - (ii) that management has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement, and all transactions have been recorded and are reflected in the financial statement.

are not reliable, or

- (b) Management does not provide the written representations referred to in (a) above.

The above matters relate to the premise on which an audit is based. The IAASB and the AASB are of the view that concerns regarding these matters would indicate a lack of sufficient appropriate audit evidence that is pervasive to the financial statements and, therefore, must lead to a disclaimer of the auditor's opinion.

*Management Representations When Using Differential Reporting Options*

4. A respondent suggested that the AASB consider whether CAS 580 should be amended to address management representations when differential reporting options have been used to present the financial statements. The AASB concluded that no amendment to the CAs, including CAS 580, should be made for differential reporting because it is a form of GAAP, and under the CAs, is an acceptable financial reporting framework. The CAs, like the ISAs, are designed to enable an auditor to report on financial statements prepared in accordance with any acceptable financial reporting framework.

*Representations Management Provides to Other Parties*

5. A respondent suggested that the AASB consider whether CAS 580 should be amended to address circumstances when management provides written representations or certifications regarding the entity's financial statements or related internal control to parties other than the auditor. The AASB concluded that no amendment was required regarding this matter. The AASB noted that paragraph 17 requires the auditor to deal with inconsistencies between the representations the auditor has received from management and other audit evidence. This would include inconsistencies with representations or certifications management has provided to other parties, of which the auditor is aware.

*Management Representation Regarding Subsequent Events*

6. A respondent suggested that the AASB consider whether CAS 580 should be amended to include material on obtaining updated written representations from management when performing subsequent events procedures in various circumstances. The AASB concluded that no amendment should be made regarding this matter. Paragraph 9 of CAS 560, *Subsequent Events*, deals with this matter. A fundamental principle in developing the ISAs (and CAs) is that there should be no duplication of guidance. Auditors are expected to read and obtain an understanding of the entire body of CAs.

*Illustrative Representation Letter*

7. A respondent suggested that CAS 580 be amended to include the example representation letter in Section 5370 as an alternate in the Canadian context. The respondent expressed the view that the example letter in Section 5370 provides stronger guidance than the example included in Appendix 2 of CAS 580. The AASB considered this matter and concluded that under its criteria for amendments no amendment should be made. There is no circumstance particular to Canada that needs to be addressed in the example letter. It contains written representations that are required by CAS 580 and other CAs, and is presented for illustrative purposes only. It is not meant to be all inclusive. As explained in paragraph 13, the auditor may request written representations on any other matters that the auditor considers necessary.

**Other Matters**

*Effect on Review Engagement Standards*

8. ED-CAS 580 noted that Section 8200, PUBLIC ACCOUNTANT'S REVIEW OF FINANCIAL STATEMENTS, includes standards and guidance based on Section 5370 and that the AASB will consider and propose revisions to Section 8200 at a future date. One respondent expressed the view that it would be confusing to practitioners and the public, and impractical, if the requirements and application and other explanatory material in Section 8200, based on Section 5370, are not amended at the same time and in the same manner as CAS 580. The AASB considered this matter and concluded that changes to the review engagement standards, including Section 8200, should not be made on ad hoc basis. Rather a project should be undertaken in the near term to revise, as needed, the complete set of review engagement standards.

**List of Respondents to ED-CAS 580**

Auditor General Alberta  
BDO Dunwoody LLP  
Canadian Public Accountability Board  
Deloitte & Touche LLP  
Institute of Chartered Accountants of British Columbia  
KPMG LLP  
Ordre des comptables agréés du Québec  
Provincial Auditor Saskatchewan  
Serge Huot The AC Group of Independent Accounting Firms Limited

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