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Proposed Revised and Redrafted International Standard on Auditing 580 – Written representations

Dear Mr Sylph

The Committee of European Banking Supervisors welcomes the opportunity to comment on the *Proposed Revised and Clarified International Standard on Auditing 580 – Written representations (ISA 580)*.

Through their opinions on annual accounts and annual reports, external auditors constitute an integral part of the public oversight model and contribute to the financial stability of the market. As banking supervisors we therefore have an interest in ensuring that auditing standards, which are the basis for audit work, are of a high quality and are clear and capable of consistent application.

In respect of this proposed ISA 580, we have concerns about:

- The details of the general written representation regarding the Financial statements;
- The requirements in this ISA and how they interact with local laws and regulations, e.g. in the area of 'adequate' control;
- The objective of the ISA; and
- The disclaimer of opinion when general written representations are not obtained.

In the attached appendix we provide answers to the specific questions raised by the IAASB.

Our comments were coordinated by our Expert Group on Financial Information (EGFI), and especially by its Subgroup on Auditing, which is under the direction of Pat Sucher from the FSA, UK.

If you have any questions regarding our comments, please feel free to contact the chairman of EGFI, Arnoud Vossen (+31.20.524.3903) or Miss Pat Sucher (+44.20.7066.5644).

Yours sincerely

A handwritten signature in black ink, consisting of several fluid, overlapping strokes that form a stylized, cursive representation of the name Danièle Nouy.

Danièle Nouy
Chair

Comments on ISA 580 – Written representations (ISA 580)

1. Respondents are asked for their views on the details of the general written representations regarding the financial statements

We have two major concerns about the detail of the general written representations laid out in paragraph 8:

(a) The detailed elements of the representation included in paragraph 8 would lead to very lengthy, routine written general representations, especially for a group of companies. We are not convinced that they would be of sufficient use for either the relevant parties or the audit firms, to obtain any comfort or regard them as helpful.

(b) Where those elements concern certain aspects which management should take full responsibility for and/or where auditors could obtain sufficient appropriate audit evidence as for example the appropriateness of the selection and application of accounting policies, we consider that these elements should not be required in written representations.

With regard to those detailed elements of written representations which could still be considered as relevant, for example those relating to the completeness of financial statement items, or management intent, this could be covered as a principle in paragraph 8. The detailed examples of this aspect should be included in the application material i.e. those items covered in the bullet points relating to the financial reporting framework.

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 misstatements.

Requesting relevant parties to confirm whether they believe that the internal control is adequate to support the preparation and presentation of the financial statements, raises the following concerns:

(a) It is not clear what relevant parties are required to do to provide such representation. The term "adequate for the purpose" may need some further expansion to add clarity.

(b) Including a requirement that relevant parties have to provide a written representation that 'internal control they have maintained is adequate for that purpose' is likely to be in conflict with local laws and regulations.

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 are of the view that there is a lack of graduation in the actions that the auditor should take when relevant parties do not provide general written representations. In particular we are not convinced that, given these written representations are not, themselves, 'sufficient, appropriate audit evidence about the validity of the premises' (paragraph 7, ISA 580) the issue is so pervasive that a disclaimer is always necessary, as required in paragraph 19.

In this respect we propose that the only requirement to be followed when relevant parties do not provide requested general written representations should be as covered in paragraph 18 up until '(c) the opinion in the auditor's report' The rest of paragraph 18 should be deleted. Paragraph 19 should be moved to the application material as a possible action, but not one that would apply in all audit engagements. Paragraph 20 could be deleted.

Providing a graduated response allows for those situations where management provides legitimate reasons for not providing the written representations. For example, new management could refuse to provide the general written representations about the financial statements that have been prepared by the former management. In such cases, the auditor should be able to assess the seriousness of the matter by exercising professional judgement and taking appropriate actions, including determining the possible effects on the opinion in the auditor's report.

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

We agree that the general written representations should be as of the same date as the auditor's report on the financial statement.

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.

As stated in paragraph 7 and paragraph 12, written representations, by themselves, do not constitute sufficient appropriate audit evidence. Therefore we are concerned whether the statement in the objective that the auditor's aim is to 'corroborate' the validity of the premises and other audit evidence, is appropriate.

To corroborate implies that such representations are substantially useful and reliable as audit evidence. However, as noted in ISA 500, Audit Evidence, audit evidence obtained from inside the entity is not necessarily reliable. Therefore to use the verb 'corroborate' in the objective seems to accord too high a status to written representations as audit evidence. We are also concerned it may lead to an even greater proliferation of written representations when they are not appropriate.

We suggest that the IAASB revisits the objective to reword it to reflect:

- (a) the nature of the evidence obtained through written representations; and
- (b) when it is appropriate as evidence for the auditor.

Paragraph 4 of the current ISA 580 may provide a basis for such a rewritten objective.

Other comments

In paragraph 12, there seems to be a 'management' missing before the word 'judgment' in line 3.

Requirement paragraph 14 contains no "shall". This could be moved to the application material with cross reference to paragraph 15.

In requirements paragraph 15 and 20, "shall consider" should be replaced by "shall evaluate".

A16 introduces a new concept "Threshold amounts". We question whether it is necessary to introduce a new concept, when it is implicit that general and

specific written representations should normally only be required for material items.