

ASA 580
(October 2009)

Explanatory Statement

ASA 580 Written Representations

Issued by the **Auditing and Assurance Standards Board**

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Australian Government

Auditing and Assurance Standards Board

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This Explanatory Statement is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au.

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Reasons for Issuing Auditing Standard ASA 580 Written Representations

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 580 *Written Representations* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001* (the Act), the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards. The IAASB has undertaken a programme to redraft, and in some cases, revise, in “clarity” format, the entire suite of ISAs. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

Operative Date

ASA 580 *Written Representations* is operative for financial reporting periods commencing on or after 1 January 2010.

Purpose of Auditing Standard ASA 580 *Written Representations*

The purpose of the Auditing Standard is to establish Requirements and to provide Application and Other Explanatory Material to auditors regarding their responsibility to obtain written representations from management and, where appropriate, those charged with governance in an audit of a financial report.

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Main Features

The Auditing Standard:

- (a) establishes the requirements and related guidance for the auditor to obtain written representations from management, and where appropriate, those charged with governance as part of their audit evidence;
- (b) establishes the nature of the information to be included in written representations;
- (c) references to other written representations that may be required by other Australian Auditing Standards; and
- (d) identifies the action(s) to take if management do not provide the written representations requested.

Preamble and Overall Objectives

ASA 580 is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. ASA 580 is to be read in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of An Audit in Accordance with Australian Auditing Standards*.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the FRC's Strategic Direction, the AUASB has undertaken a process of revision and redrafting of the Australian Auditing Standards that has:

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- updated the form, layout and content of the Australian Auditing Standards;
- addressed the legal enforceability of mandatory obligations;
- maintained clarity of the auditor's obligations;
- incorporated appropriate references to Australian laws and regulations;
- clearly identified, by use of the prefix "Aus", AUASB additions to paragraphs in the Requirements or the Application and Other Explanatory Material; and
- included other amendments as necessary.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 21/08, *Proposed Auditing Standard: Written Representations* (Re-issuance of ASA 580), was issued on 10 November 2008 with a 30 day comment period.

As an integral part of its consultation with the public, the AUASB sought comments on specific questions including:

- the completeness and accuracy of references in the Auditing Standard to relevant laws and regulations;
- the significant costs, if any, and benefits, of compliance with any additional Requirements under the Auditing Standard; and
- whether or not there exist any matters of public interest affecting the issuance of the Auditing Standard.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

Regulatory Impact Statement

A *Regulatory Impact Statement* (RIS) has been prepared in connection with the redrafting of Australian Auditing Standards in Clarity format, including ASA 580 *Written Representations*.

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The RIS has considered both the expected benefits and expected costs of the introduction of clarified auditing standards, including comments provided by stakeholders during the redrafting process. It concluded that expected benefits to users of audit services, users of audit reports, auditors and the Australian economy in general are, on balance, likely to outweigh expected costs.

Main Differences from ASA 580 *Management Representations* (April 2006)

The main differences between the Auditing Standard and the Auditing Standard that it supersedes, ASA 580 *Management Representations* (April 2006), are:

1. Auditing Standard ASA 580 is written in the 'clarity' format using the equivalent International Standard on Auditing (ISA 580 *Written Representations*) as the underlying Auditing Standard. Consequently, the format, layout, and paragraph numbering styles are different from the extant Auditing Standard.
2. The following Requirements included in the Auditing Standard are in part, or full, additional to the extant Auditing Standard:
 - (a) The auditor shall request management to provide a written representation that:
 - (i) It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement, and
 - (ii) All transactions have been recorded and are reflected in the financial report. (Ref: Para. 11)
 - (b) Other Auditing Standards 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 report or one or more specific assertions in the financial report, the auditor shall request such other written representations. (Ref: Para. 13)
 - (c) In particular, if written representations are inconsistent with other audit evidence, the auditor shall perform audit procedures to attempt to resolve the matter. If the matter remains unresolved, the auditor shall reconsider the

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assessment of the competence, integrity, ethical values or diligence of management, or of its commitment to or enforcement of these, and shall determine the effect that this may have on the reliability of representations (oral or written) and audit evidence in general. (Ref: Para. 17)

- (d) If the auditor concludes that the written representations are not reliable, the auditor shall take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with ASA 705, having regard to the requirement in paragraph 20 of this Auditing Standard. (Ref: Para. 18)
 - (e) If management does not provide one or more of the requested written representations, the auditor shall:
 - (i) Discuss the matter with management;
 - (ii) Re-evaluate 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
 - (iii) Take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with ASA 705, having regard to the requirement in paragraph 20 of this Auditing Standard. (Ref: Para. 19)
 - (f) The auditor shall disclaim an opinion on the financial report in accordance with ASA 705 if:
 - (i) The auditor concludes that there is sufficient doubt about the integrity of management such that the written representations required by paragraphs 10 and 11 of this Auditing Standard are not reliable; or
 - (ii) Management does not provide the written representations required by paragraphs 10 and 11 of this Auditing Standard. (Ref: Para. 20)
3. To improve clarity, certain requirements and guidance in the extant Auditing Standard have been re-written, however, the equivalent meanings have been retained.

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4. Certain guidance material in the extant Auditing Standard has been elevated to Requirements.
5. Significant Application and Other Explanatory Material, linked to the additional Requirements listed at 2. above is also included in the Auditing Standard.

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