



BASEL COMMITTEE ON BANKING SUPERVISION

BANK FOR INTERNATIONAL SETTLEMENTS

Chairman

**VIA ELECTRONIC MAIL:
edcomments@ifac.org**

Mr Jim Sylph
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IAASB exposure draft ISA 580 (revised and redrafted), written representations

Dear Mr Sylph

The Basel Committee on Banking Supervision (the Committee) welcomes the opportunity to comment on your recent exposure draft. The Committee has a strong interest in high quality and independent audits of banks and has carefully analysed the revised proposal captioned above.

We appreciate the efforts of the International Auditing and Assurance Standards Board (IAASB) in revising and redrafting the auditing standard to enhance auditor performance in an audit of financial statements and improve the clarity of the language within the standards to more clearly describe the responsibilities of the auditor. Please find our detailed comments in the attached appendix. These comments have been prepared by the Committee's Accounting Task Force, chaired by Ms Sylvie Mathérat, Director of the Commission Bancaire in France, and have been approved by the Committee. The Committee trusts that you will find its comments useful and constructive.

If you have any questions regarding our comments, please feel free to contact Sylvie Mathérat (+33 1 4292 6579), Marc Pickeur, who chairs the Audit Subgroup of the Accounting Task Force (+32 2 220 5253), or Linda Ditchkus at the Basel Committee Secretariat (+41 61 280 8007).

Yours sincerely

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Appendix

Basel Committee comments on IAASB exposure draft ISA 580 (revised and redrafted), Written representations

1. Introduction

The Basel Committee on Banking Supervision¹ (the Committee) has a strong interest in high quality and independent audits of banks and has carefully analysed the proposed redrafted International Standard on Auditing (ISA) pertaining to written representations. The remainder of this appendix highlights certain issues, questions and suggestions for the Board's consideration. Furthermore, the Committee appreciated the publication of the supplemental mapping information, which provided explanations for decisions regarding requirements and application materials and changes to the proposed text.

2. Responses to the IAASB's questions

- (1) What are our views on whether, in paragraph 8, relevant parties should state that specific matters, where relevant in view of the applicable financial reporting framework, have been recognised, measured or disclosed in accordance with that framework?**

We are concerned about the detail and completeness of the sub-bullets in the third bullet of paragraph 8. We suggest rewording the third bullet of paragraph 8 to make it more general, for example:

“Whether all matters that are relevant in view of the applicable financial reporting framework have been recognised, measured or disclosed in accordance with that framework.”

Since the sub-bullets are not a complete list of matters that may affect recognition, measurement, or disclosure in the financial statements, they could be included as examples in the application material.

¹ The Basel Committee on Banking Supervision is a committee of banking supervisory authorities, which was established by the central bank Governors of the Group of Ten countries in 1975. It consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States. It usually meets at the Bank for International Settlements in Basel, where its permanent Secretariat is located.

(2) What are our comments on the requirement in paragraph 9 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?

As banking supervisors, the Committee understands the importance of banks having internal control that is adequate for the size and complexity of their businesses. Therefore we agree that relevant parties should be requested to confirm that they acknowledge and understand their responsibilities for designing, implementing, and maintaining internal control relevant to preparing and presenting financial statements that are free from material misstatements.

However we have three concerns about requesting relevant parties to confirm whether they believe that the internal control they have maintained is adequate for that purpose.

(a) We are concerned about how this requirement would interact with specific national legal requirements. Management has responsibility for internal control over financial reporting which, allowing for any local legal requirements, may be reasonable as a *management premise*. This premise is recognised through the application material in paragraph A4 and the proposed conforming amendment to ISA 210 and is consistent with Basel Committee guidance.² However, confirming whether internal control is adequate will not be a management premise in some jurisdictions but a specific representation. We are of the view that the ISA should not oblige relevant parties to provide such representations in cases where they are not required by national legal requirements.

(b) The phrase 'adequate for that purpose' in paragraph 9 should be further clarified in order to ensure that the requirements can be appropriately applied. One way to add clarity is to provide examples of what could be done by the relevant parties within the application material. Also, the application material could mention that this internal control only refers to internal control over financial reporting.

(c) The ISA should make clear that requiring management to represent that 'internal control is adequate for that purpose' in no way undermines the auditor's responsibilities in this area.

(3) What are our comments regarding the requirement in paragraph 19 for the auditor to disclaim an opinion on the financial statements when relevant parties do not provide general written representations about the premises, relating to management's responsibilities on which an audit is conducted?

We believe that the requirement in paragraph 19 should provide leeway for the auditor to judge the seriousness of the matter. This would be particularly important in cases when management does not provide the general written representations in the manner specifically required by the auditor. Our concern is that this requirement, as currently worded, would lead to a disclaimer of an opinion when a disclaimer might not be appropriate. A greater range of consequential alternatives should be available to reflect a range of management inaction and possible auditor responses. However, auditors should be cautious about issuing an unqualified opinion if the required written representations are not obtained.

² *The relationship between banking supervisors and banks' external auditors*, issued January 2002. This guidance was jointly developed with the International Auditing Practices Committee (IAPC) of the International Federation of Accountants. The IAPC issued the paper as International Auditing Practice Statement 1004.

We believe that the requirements in paragraphs 18 and 19 may be difficult to distinguish. Therefore, we suggest the IAASB consider providing examples in the application material to distinguish between written representations related to management's responsibilities (ie paragraph 19) and other types of written representations (ie paragraph 18).

(4) What should be the date of the general written representations?

The Committee agrees that this should be the same date as that of the auditor's report on the financial statements.

(5) Is the objective for the ISA appropriate?

The Committee believes that the objective is generally appropriate; however, to state that written representations "corroborate" premises or other evidence may be according too high a level reliability. Specifically, other audit work is commonly undertaken to corroborate management assertions, including their representations. Therefore, the Committee suggests replacing the words "corroborate, by means of written representations" with "obtain additional audit evidence, by means of written representations, concerning".

(6) Are the proposed requirements appropriate given the objective?

In the Committee's responses to questions 1, 2, and 3 above, comments are provided on paragraphs 8, 9, and 19. In addition, the Board notes the following points in other requirements where further clarity would enhance the standard.

In paragraph 12, the IAASB should insert the word 'management' in front of judgement.

The requirement in paragraph 14 does not include the word *shall*. One alternative would be to move this concept to the application section. As another alternative, the requirement could be phrased as follows:

'The auditor shall evaluate the reliability of written representations.'

In this latter case, the two bulleted examples provided in paragraph 14 should be moved to the application material.

In paragraph 15, the phrase 'When the auditor's doubt remains unresolved' may be challenging to translate and should be simplified. In the same sentence, the Committee believes the word 'reconsider' should be changed to 're-evaluate'.

In paragraph 20, changing the word 'consider' to 'evaluate' would clarify the action to be taken by the auditor.

Other comments

The Committee has concerns about footnote 2 and how it relates to the definition of *management*. In this respect, the Committee has noted that the terms *management* and *relevant parties* are used in paragraph 7 in different ways, which may lead one to conclude that the terms have two different meanings. In most cases, however, *relevant parties* seems

equivalent to *management*. The IAASB should clarify whether and, if so, how these terms are different.

Paragraph A16 discusses *threshold amounts*. The Committee believes that this paragraph does not clearly tie this explanatory material to the ISA requirements and does not provide the auditor with sufficient information to implement the guidance. Furthermore, the Committee presumes the ISA does not need to explicitly state that written representations should only be requested for material items; therefore, the IAASB should consider either deleting this paragraph or, at a minimum, adding clarifying text.