

Management Representations

The Singapore Standard on Auditing SSA 22 “Management Representation” was approved by the Council of the Institute of Certified Public Accountants of Singapore in September 1996.

Auditors are required to comply with the auditing standards contained in this SSA in respect of audits of financial statements for periods beginning on or after 1 January 1997.

SSA 580 supersedes SSA 22 of the same title in June 2004. No substantive changes have been made to the original approved text and all cross references have been updated, as appropriate.

This revised SSA 580 supersedes the SSA of the same title in June 2005.

The Audit Risk Standards, comprising SSA 315 “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement”, SSA 330 “The Auditor’s Procedures in Response to Assessed Risks” and SSA 500 (Revised) “Audit Evidence” gave rise to conforming amendments in this SSA. These amendments are effective for audits of financial statements for periods beginning on or after 15 December 2004.

This SSA was last updated in January 2010.

Singapore Standards on Auditing (SSAs) are to be applied in the audit of financial statements. SSAs are also to be applied, adapted as necessary, to the audit of other information and to related services.

SSAs contain the basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material. The basic principles and essential procedures are to be interpreted in the context of the explanatory and other material that provide guidance for their application.

To understand and apply the basic principles and essential procedures together with the related guidance, it is necessary to consider the whole text of the SSA including explanatory and other material contained in the SSA not just that text which is black lettered.

In exceptional circumstances, an auditor may judge it necessary to depart from an SSA in order to more effectively achieve the objective of an audit. When such a situation arises, the auditor should be prepared to justify the departure.

SSAs need only be applied to material matters.

The Public Sector Perspective (PSP) issued is set out at the end of an SSA. Where no PSP is added, the SSA is applicable in all material respects to the public sector.

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SINGAPORE STANDARD ON AUDITING

SSA 580

Management Representations

Foreword

- i) This Standard is based on International Standard on Auditing 580, with such amendments as were considered appropriate for local adoption.
- ii) The amendments are as follows:

Paragraph 3

The word 'relevant' has been deleted from the phrase 'in accordance with the relevant financial reporting framework'.

Appendix

Paragraph 1

.... its cash flows for the year then ended in accordance with (indicate relevant financial reporting framework),'

is replaced by:

'.... its cash flows for the year then ended in accordance with Singapore Financial Reporting Standards.'

Paragraph 2

We acknowledge our responsibility for the fair presentation of the financial statements in accordance with (indicate relevant financial reporting framework).'

is replaced by:

We acknowledge our responsibility for the fair presentation of the financial statements in accordance with Singapore Financial Reporting Standards, including the appropriate disclosure of all information required by the Companies Act, Cap. 50.'

Inserting 2 additional bullet points to better clarify management responsibilities:

- We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error.
- We believe the effects of those uncorrected financial statement misstatements aggregated by you during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such items are included in (or attached to) the written representations.

Last sentence

We have properly recorded or disclosed in the financial statements the capital stock repurchase options and agreements, and capital stock reserved for options, warrants, conversions and other requirements.

is replaced by:

We have properly recorded or disclosed in the financial statements the redemption, and shares reserved for options, warrants, conversions and other requirements.

Signatories' titles

Director/Chief Executive Officer and Director/Chief Executive Officer

is replaced by:

Director/Senior Executive Officer and Director/Senior Financial Officer

Introduction

1. The purpose of this Singapore Standard on Auditing (SSA) is to establish standards and provide guidance on the use of management representations as audit evidence, the procedures to be applied in evaluating and documenting management representations and the action to be taken if management refuses to provide appropriate representations.
2. **The auditor should obtain appropriate representations from management.**

Acknowledgment by Management of its Responsibility for the Financial Statements

3. **The auditor should obtain audit evidence that management acknowledges its responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework, and has approved the financial statements.** The auditor can obtain audit evidence of management's acknowledgment of such responsibility and approval from relevant minutes of meetings of those charged with governance or by obtaining a written representation from management or a signed copy of the financial statements.

Representations by Management as Audit Evidence

4. **The auditor should obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.** The possibility of misunderstandings between the auditor and management is reduced when oral representations are confirmed by management in writing. Matters which might be included in a letter from management or in a confirmatory letter to management are contained in the example of a management representation letter in the Appendix.
5. Written representations requested from management may be limited to matters that are considered either individually or collectively material to the financial statements. Regarding certain items it may be necessary to inform management of the auditor's understanding of materiality.
- 5a. **The auditor should obtain written representations from management that:**
 - (a) **It acknowledges its responsibility for the design and implementation of internal control to prevent and detect error; and**
 - (b) **It believes the effects of those uncorrected financial statement misstatements aggregated by the auditor during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such**

items should be included in or attached to the written representations.

6. During the course of an audit, management makes many representations to the auditor, either unsolicited or in response to specific inquiries. When such representations relate to matters which are material to the financial statements, the auditor will need to:
 - a) Seek corroborative audit evidence from sources inside or outside the entity;
 - b) Evaluate whether the representations made by management appear reasonable and consistent with other audit evidence obtained, including other representations; and
 - c) Consider whether the individuals making the representations can be expected to be well informed on the particular matters.
7. Representations by management cannot be a substitute for other audit evidence that the auditor could reasonably expect to be available. For example, a representation by management as to the cost of an asset is not a substitute for the audit evidence of such cost that an auditor would ordinarily expect to obtain. If the auditor is unable to obtain sufficient appropriate audit evidence regarding a matter which has, or may have, a material effect on the financial statements and such audit evidence is expected to be available, this will constitute a limitation in the scope of the audit, even if a representation from management has been received on the matter.
8. In certain instances audit evidence other than that obtained by performing inquiry may not be reasonably expected to be available; therefore the auditor obtains a written representation by management. For example, the auditor may not be able to obtain other audit evidence to corroborate management's intention to hold a specific investment for long-term appreciation.
9. **If a representation by management is contradicted by other audit evidence, the auditor should investigate the circumstances and, when necessary, reconsider the reliability of other representations made by management.**

Documentation of Representations by Management

10. The auditor would ordinarily include in audit working papers evidence of management's representations in the form of a summary of oral discussions with management or written representations from management.
11. A written representation is ordinarily more reliable audit evidence than an oral representation and can take the form of:
 - a) A representation letter from management;
 - b) A letter from the auditor outlining the auditor's understanding of management's representations, duly acknowledged and confirmed by management; or
 - c) Relevant minutes of meetings of the board of directors or similar body or a signed copy of the financial statements.

Basic Elements of a Management Representation Letter

12. When requesting a management representation letter, the auditor would request that it be addressed to the auditor, contain specified information and be appropriately dated and signed.
13. A management representation letter would ordinarily be dated the same date as the auditor's report. However, in certain circumstances, a separate representation letter regarding specific transactions or other events may also be obtained during the course of the audit or at a date after the date of the auditor's report, for example, on the date of a public offering.
14. A management representation letter would ordinarily be signed by the members of management who have primary responsibility for the entity and its financial aspects (ordinarily the senior executive officer and the senior financial officer) based on the best of their knowledge and belief. In certain circumstances, the auditor may wish to obtain representation letters from other members of management. For example, the auditor may wish to obtain a written representation about the completeness of all minutes of the meetings of shareholders, the board of directors and important committees from the individual responsible for keeping such minutes.

Action if Management Refuses to Provide Representations

15. **If management refuses to provide a representation that the auditor considers necessary, this constitutes a scope limitation and the auditor should express a qualified opinion or a disclaimer of opinion.** In such circumstances, the auditor would evaluate any reliance placed on other representations made by management during the course of the audit and consider if the other implications of the refusal may have any additional effect on the auditor's report.

APPENDIX

Example of a Management Representation Letter

The following letter is not intended to be a standard letter. Representations by management will vary from one entity to another and from one period to the next.

Although seeking representations from management on a variety of matters may serve to focus management's attention on those matters, and thus cause management to specifically address those matters in more detail than would otherwise be the case, the auditor needs to be cognizant of the limitations of management representations as audit evidence as set out in this SSA.

(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the financial statements of ABC Company for the year ended 31 December 19X1 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of (present fairly, in all material respects,) the financial position of ABC Company as of 31 December 19X1 and of the results of its operations and its cash flows for the year then ended in accordance with Singapore Financial Reporting Standards.

We acknowledge our responsibility for the fair presentation of the financial statements in accordance with Singapore Financial Reporting Standards, including the appropriate disclosure of all information required by the Companies Act, Cap. 50.¹

We confirm, to the best of our knowledge and belief, the following representations:

Include here representations relevant to the entity. Such representations may include:

- We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error.
- We believe the effects of those uncorrected financial statement misstatements aggregated by you during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such items are included in (or attached to) the written representations.
- There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.
- We have made available to you all books of account and supporting documentation and all minutes of meetings of shareholders and the board of directors (namely those held on 15 March, 19X1 and 30 September, 19X1, respectively).
- We confirm the completeness of the information provided regarding the identification of related parties.
- The financial statements are free of material misstatements, including omissions.
- The Company has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of noncompliance. There has been no noncompliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of noncompliance.
- The following have been properly recorded and when appropriate, adequately disclosed in the financial statements:
 - a) The identity of, and balances and transactions with, related parties.
 - b) Losses arising from sale and purchase commitments.
 - c) Agreements and options to buy back assets previously sold
 - d) Assets pledged as collateral.

¹ If required add 'On behalf of the board of directors (or similar body)."

- We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory stated at an amount in excess of realisable value.
- The Company has satisfactory title to all assets and there are no liens or encumbrances on the company's assets, except for those that are disclosed in Note X to the financial statements.
- We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and have disclosed in Note X to the financial statements all guarantees that we have given to third parties.
- Other than ... described in Note X to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or Notes thereto.
- The ... claim by XYZ Company has been settled for the total sum of XXX which has been properly accrued in the financial statements. No other claims in connection with litigation have been or are expected to be received.
- There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in Note X to the financial statements, we have no other line of credit arrangements.
- We have properly recorded or disclosed in the financial statements the redemption, and shares reserved for options, warrants, conversions and other requirements.

(Director/Senior Executive Officer)

(Director/Senior Financial Officer)