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Mr. James Dalkin, CPA
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United States Government Accountability Office
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Jim,

My firm will be sending general comments regarding the 2017 Exposure Draft of the yellow book. My comments below pertain to just a single issue: obtaining management's written representations in performance audits.

My views are that:

- Obtaining written representations from management is an important requirement for financial audits and equally important—if not more important—for performance audits.
- As written, paragraph 8.95 of the Exposure Draft will cause confusion and undermine auditors who decide to request written representations from management.
- GAO should conform with other standard setters that have recognized the importance of obtaining written management representations in performance audits.

The following paragraphs expand on and explain these points.

Obtaining written representations from management is an important requirement for financial audits and equally important—if not more important—for performance audits.

In a financial statement audit,

Written representations are an important source of audit evidence. If management modifies or does not provide the requested written representations, it may alert the auditor to the possibility that one or more significant issues may exist. Further, a

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request for written rather than oral representations, in many cases, may prompt management to consider such matters more rigorously, thereby enhancing the quality of the representations. [AU-C §580.A1]

Written representations are equally important, if not more important, in performance audits where audit objectives, scopes, and methodologies can vary widely and where there are greater opportunities for misunderstandings between management (responsible parties) and auditors.

Obtaining written representations assures that oral representations are complete, accurate, and have not been misunderstood or misinterpreted. Indeed, in many performance audits, management may be disinclined to cooperate fully with auditors. In most cases, this lack of full disclosure and full cooperation can be hidden from the auditors. Management refusal to confirm that all information requested has been provided signals that a scope limitation exists that might otherwise have remained hidden.

As written, paragraph 8.95 of the Exposure Draft will cause confusion and undermine auditors who decide to request written representations from management.

The phrase “auditors may” appears 105 times in the exposure draft. Only in one instance, paragraph 8.95, is this phrase followed by the admonition “this step is not a requirement for GAGAS” In effect, this phrasing undermines an auditor who decides that written representations are needed. The auditee will point to the statement that it “is not a requirement for GAGAS” as a basis for refusing to provide the requested representations. Since paragraph 8.95 is clearly outside of the “requirements” box, the last sentence of paragraph 8.95 is redundant and unnecessary.

If GAO is unwilling to support the importance of representation letters in performance audits by making them a “should” provision, or at least a “should consider” provision, then GAO should at least delete the 2nd sentence of paragraph 8.95.

GAO should conform with other standard setters that have recognized the importance of obtaining written management representations in performance audits.

Several other standard-setters have recognized the importance of obtaining written representations from management when performing assurance services other than financial audits or reviews of historical financial information. In some cases, such services are referred to as performance audits; and in some cases these are termed “direct engagements.”

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The International Auditing and Assurance Standards Board sets forth the following **requirement** when conducting an assurance engagement¹ other than audits or reviews of historical financial information:

Representations by the Responsible Party

38. The practitioner should obtain representations from the responsible party, as appropriate. Written confirmation of oral representations reduces the possibility of misunderstandings between the practitioner and the responsible party. In particular, the practitioner requests from the responsible party a written representation that evaluates or measures the subject matter against the identified criteria, whether or not it is to be made available as an assertion to the intended users. Having no written representation may result in a qualified conclusion or a disclaimer of conclusion on the basis of a limitation on the scope of the engagement. The practitioner may also include a restriction on the use of the assurance report. [ISAE 3000, paragraph 38.]

Written Representations

56. The practitioner shall request from the appropriate party(ies) a written representation:

(a) That it has provided the practitioner with all information of which the appropriate party(ies) is aware that is relevant to the engagement.

(Ref: Para. A54–A55 and A136–A138)

(b) Confirming the measurement or evaluation of the underlying subject matter against the applicable criteria, including that all relevant matters are reflected in the subject matter information.

57. If, in addition to required representations, the practitioner determines that it is necessary to obtain one or more written representations to support other evidence relevant to the subject matter information, the practitioner shall request such other written representations.

58. When written representations relate to matters that are material to the subject matter information, the practitioner shall:

(a) Evaluate their reasonableness and consistency with other evidence obtained, including other representations (oral or written); and

(b) Consider whether those making the representations can be expected to be well-informed on the particular matters.

59. The date of the written representations shall be as near as practicable to, but not after, the date of the assurance report.

¹ An assurance engagement “means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.” [International Framework for Assurance Engagements, paragraph 7.]

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Requested Written Representations Not Provided or Not Reliable

60. If one or more of the requested written representations are not provided or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or that the written representations are otherwise not reliable, the practitioner shall: (Ref: Para. A139)

(a) Discuss the matter with the appropriate party(ies);

(b) Reevaluate the integrity of those from whom the representations were requested or received and evaluate the effect that this may have on the reliability of representations (oral or written) and evidence in general; and

(c) Take appropriate actions, including determining the possible effect on the conclusion in the assurance report. [ISAE 3000 (Revised), paragraphs 56-60.]

Written Representations (Ref: Para. 56)

A136. Written confirmation of oral representations reduces the possibility of misunderstandings between the practitioner and the appropriate party(ies). The person(s) from whom the practitioner requests written representations will ordinarily be a member of senior management or those charged with governance depending on, for example, the management and governance structure of the appropriate party(ies), which may vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. [ISAE 3000 (Revised), paragraph A136.]

The Australian Government's Auditing and Assurance Standards Board has adopted these exact same requirements. See ASAE 3000, paragraphs 56-60.

In Canada, the Canadian Standard on Assurance Engagements (CSAE) deals with direct engagements.² CSAE 3000 contains virtually the identical requirements pertaining to obtaining written representations. [See CSAE 3000, paragraphs 61-65.]

Conclusion and Recommendations

An alternative way of looking at this issue is to ask if there is any reason NOT to request and obtain written representations. Since the principal purpose of obtaining written representations is to avoid miscommunications between the auditor and responsible party, there cannot be a valid reason to not make this a required audit procedure.

I recommend that GAO adopt the language in ISAE 3000, ASAE 3000, and CSAE 3000 that will make obtaining written representations a required (should) procedure in

² "A direct engagement is an assurance engagement in which the practitioner evaluates the underlying subject matter against applicable criteria and aims to obtain sufficient appropriate evidence to express, in a written direct assurance report, a conclusion to intended users other than the responsible party, about the outcome of that evaluation." [CSAE 3000, paragraph 1.]

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performance audits. If GAO will not make obtaining written representations a “should” procedure, then GAO should make this a “should consider” procedure. At a very minimum, however, GAO should delete the second sentence in paragraph 8.95.

I will be happy to discuss this matter further with you and the Advisory Council, and I can provide several examples of situations in recent performance audits where the request for written representations from management revealed significant additional information pertaining to the audit objectives and audit conclusions that would have otherwise remained hidden.

Very truly yours,

A handwritten signature in black ink, appearing to read 'D. Cotton', written over a horizontal line.

David L. Cotton, CPA, CFE, CGFM

Chairman

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