

AICPA UPDATES STANDARDS ON MANAGEMENT REPRESENTATIONS

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SAS No. 85, *Management Representations*, supersedes SAS No. 19, and establishes new standards for the auditor in obtaining written representations from associations. It also provides guidance for special circumstances, such as:

- C representations when management has not been in place for the entire year under audit
- C obtaining representations covering specific areas of an audit
- C scope limitations caused by management's failure to sign a written letter of representations limitations of procedures in spite of management representations
- C management representations that appear to be contradicted by other evidence.

The effective date of this standard is for audits of financial statements ending on or after June 30, 1998, although earlier application is permitted.

SAS No. 85 establishes a requirement that the independent auditor obtain written representations from management as a part of an audit of financial statements performed in accordance with generally accepted auditing standards.

Written representations from management ordinarily confirm representations explicitly or implicitly made to the auditor during the audit. They indicate and document the continuing appropriateness of such representations, and reduce the possibility of misunderstanding concerning the matters that are the subject of the representations. Management representations do not stand alone however. They complement other auditing procedures. Such representations provide additional evidential matter to the auditor. However, if a representation made by management is contradicted by other audit evidence, the auditor should investigate the circumstances and

Executive Summary

“SAS No. 85, Management Representations, supersedes SAS No. 19, and provides guidance to the auditor in obtaining written representations from management in the course of a financial statement audit. SAS No. 85 is effective for audits of financial statements ending on or after June 30, 1998, with earlier application permissible.”

consider the reliability of the representation made.

SAS No. 85 also provides specific examples of representations that must be included in a letter of written representations from management in the course of a financial statement audit:

Financial Statements

- a. Management's acknowledgment of its responsibility for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles (GAAP)
- b. Management's belief that the financial statements are fairly presented in accordance with GAAP

Completeness of Information

- c. Availability of all financial records and related data
- d. Completeness and availability of all minutes of meetings of stockholders, directors, and committees of directors
- e. Communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices



AICPA Updates Standards on Management Representations (continued)

f. Absence of unrecorded transactions statements

Recognition, Measurement, and Disclosure

- g. Information concerning fraud involving:
1. Management
 2. Employees who have significant roles in internal control, or
 3. Others where the fraud could have a material effect on the financial statements
- h. Plans or intentions that may affect the carrying value or classification of assets or liabilities
- i. Information concerning related party transactions and amounts receivable from or payable to related parties
- j. Guarantees, whether oral or written, under which the entity is contingently liable
- k. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with the AICPA's Statement of Position 94-6, Disclosure of Certain Significant Risks and Uncertainties
- l. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording loss contingencies
- m. Unasserted claims or assessments that the association's lawyer has advised are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies
- n. Other liabilities and gain or loss contingencies that are required to be recorded or disclosed by FASB Statement No. 5
- o. Satisfactory title to assets, liens or encumbrances on assets, and assets pledged as collateral
- p. Compliance with aspects of contractual agreements that may affect the financial

Subsequent Events

q. Information concerning subsequent events.

The new standard clarifies that the written representations should be addressed to the auditor, and should be tailored to include any additional representations from management relating to matters specific to the association and the industry. The representations should be no earlier than the date of the auditor's report. The letter should be signed those members of management with overall responsibility for financial and operating matters and are knowledgeable about the matters covered by the representations.

If current management was not present during the entire period under audit, the auditor should nevertheless obtain written representations from current management on all such periods. The specific representations obtained will depend upon the circumstances of the engagement. Management's refusal to furnish written representations constitutes a scope limitation of the audit sufficient to preclude an unqualified opinion, and is ordinarily sufficient to cause an auditor to disclaim an opinion or withdraw from the engagement.

If the auditor is precluded from performing procedures considered necessary to conclude the audit, even though management provides written representations regarding the matter, there is a limitation on the scope of the audit. The auditor should then qualify his or her opinion.

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