



NEWMAN
Certified Public Accountant, PC

What is a Representation Letter

Representation Letter



Overview

- **What is a representation letter?**

- From Association to CPA
- Represents the audited financial statements are the responsibility of management/those charged with governance (Board)
- Management confirms to best of their knowledge

- **What the timing of a representation letter?**

- Dated the same date as the audit report
- Sent to client with the draft audit
- Board and management company review audited financials and footnotes
- Board and management sign the representation letter upon approval of the financials
- Send to CPA. Notification the final audit report can be prepared and released

- **Why do we request a signed representation letter?**

- Required as part of an audit performed under Generally Accepted Auditing Principles
 - Lack of a signed representation letter is considered a scope limitation requiring a qualified audit report, disclaimer of opinion or withdrawal from the audit
- Assures the CPA that management and Board have provided all information requested for the audit.

Representation Letter



American Institute of Certified Public Accountants (AICPA) Conclusion

“...as management, you are asked to acknowledge that you - rather than the auditor - have primary responsibility for the financial statements and that to the best of your knowledge these statements are correct. The letter does not change or add to your fundamental responsibilities, nor does it relieve the auditor of any of his or her responsibilities. It simply clarifies the traditional roles that management and the auditor perform.”

Representation Letter



Summary

- Required by auditing and accounting standards
- Clarifies to the best of management's/board's knowledge that the statements are correct
- Must be signed by those governing and managing an association
- Notifies the CPA the final audit can be issued

Representation Letter



In More Detail

Please reference the attached sample representation letter

- Representation letters are provided in connection with an audit
- Limited to material matters
- Material if:
 - An omission or misstatement of accounting information might cause judgement to be changed or influenced

Representation Letter



Management confirmations about the financial statements and the information provided to the auditor

- Financial Statements
 - Reference to the engagement letter which discusses the responsibilities of management and the auditor
 - Management is responsible for the financial statements. They are the financial presentations of management
 - Management is responsible for system of internal controls surrounding the financial statement preparation and presentation
 - No material misstatements due to fraud or error
 - Management is responsible for sufficient internal controls to prevent and detect fraud
 - Management believes any estimates are supported by reasonable assumptions (bad debt allowance)
 - Any related party activities have been accounted for appropriately and disclosed (footnotes)
 - Subsequent events have been disclosed (special assessment, result of litigation)
 - Any uncorrected misstatements do not have a material affect on the financial statements
 - Litigation is been disclosed (footnotes)
 - Material concentrations have been disclosed (FDIC)
 - Guarantees – obligations that the association should disclose in the financial statements (significant contracts – large project)
 - Authorization and approval of movement of money between funds either as a permanent transfer or a temporary loan
 - Any interfund loans that will not be paid have been authorized to be treated as a transfer

Representation Letter



Information Provided to the Auditor

- Access to all information
- Access to personnel
- All significant transactions have been recorded
- Fraud
 - Management acknowledgement that it does not believe fraud has occurred
 - No knowledge of allegations of suspicion of fraud
- Management has no know knowledge of legal non-compliance
- Information for any possible litigation has been shared with the auditor
- Any related party transaction information has been shared with the auditor
- All association assets are owned without liens
- The association's audited financials are required to present certain supplementary information regarding major repairs and replacements (reserves)
 - Management acknowledges the requirement
 - The information presented is accurate, appropriate and complete.
 - There have not been significant changes in measurements (component remaining life, estimated current replacement cost)
 - Management is assessing members in order to fund reserves based on the latest reserve study
- Tax
 - Revenue Ruling 70-604 resolution approved by members (required for form 1120)
 - Management request clarification of tax filing and return presentation as needed

Representation Letter



- Representation letter signatures
 - Board of Directors (President/Treasurer)
 - Managing Agent