



The voice of corporate governance
in Luxembourg

MANAGEMENT'S REPRESENTATION IN THE CONTEXT OF AN INVESTMENT FUND ANNUAL AUDIT

Practical tips for Boards of Directors of Luxembourg investment funds





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Introduction

In the course of their mandate, boards of directors are annually required by the auditors of the fund to sign a representation letter in the context of a financial statement audit. Directors will usually, in turn, seek confirmation of facts and circumstances from the service providers of the fund in order to get comfort over certain of the representations asked by the auditors. This process usually takes place at the end of the audit close to the date where the Board is required to approve the accounts and may therefore entail a certain element of rush and stress. The purpose of this note is to help Boards put in place an adequate process, ensuring a timely and smooth collection of comfort from the fund's service providers.

Scope

This note applies to audits of Luxembourg investment funds. Representation letters might also be required under other circumstances (special audit reports on mergers / liquidations / contributions in kind, long form reports, 02/77 reports...). Whilst the principles described below will generally apply to representation letters to be issued under these circumstances, Directors will have to adapt the process to the specificities of such reports. Funds located in other countries might be subject to different auditing standards and practicalities of representation letters may therefore differ.

Background

Audits of Luxembourg entities are subject to International Standards on Auditing ("ISA"). These standards have been endorsed by the CSSF in its capacity as the Public Supervisor of the Audit profession in Luxembourg. ISA 580, Written Representations, specifically covers representation letters. It deals with the content, timing and responsibility of the representation letter.

Content

Whilst some of the paragraphs of the representation letter will be rather generic by nature (Board responsibility, financial statements preparation, completeness of information provided, compliance with laws and regulations, fraud related matters...) some others will be entity specific (written confirmation of oral representations made during the audit, list of uncorrected misstatements...). The final content of the representation letter will therefore be finalised upon completion of the audit only;

Timing

The date of the representation shall be as near as practicable to, but not after, the date of the auditor's report on the financial statements;

Responsibility

Written representations are requested from those responsible for the preparation of the financial statements (the Board of Directors in Luxembourg), who may decide to make enquiries of others who participate in preparing and presenting the financial statements.

Practical tips and recommendation

Planning

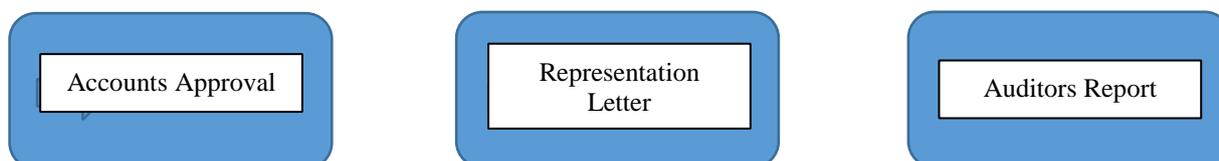
It is important to create, before the end of the year, a detailed plan of the actions required for the audit finalization and decide on the relevant owners of these tasks. This will include elements such as:

- Responsible party (management company, depositary, administrative agent or sponsor) for the audit plan monitoring, including escalation plan in case of issues,
- Responsible party for annual accounts approval (in case the board delegates it to some of its members) and signature of representation letter,
- Detailed timing of actions plan, including aspects such as timing for circulating representation letter and drafts report, obtaining service providers comfort...).

It is recommended to have this plan presented, discussed and finalized during a board meeting. It would be best to have this agreed during the board meeting where the auditors present the plan for executing the audit.

Timing

The below scheme outlines the chronological order of the account finalization tasks.



As good market practice, the audit report and representation letter are usually signed on the same date in order to avoid any date confusion and to ensure that representation letter date is as near as possible to the audit report date. In any case, the representation letter cannot be dated after the opinion date.

As explained above, the final content of the representation letter will only be determined upon completion of the audit but a large majority of the representations requested by the auditor will be known at the planning stage of the audit. In order to avoid last minute stress, it is therefore recommended to:

- plan sufficient time between audit completion and accounts approval to allow Board members to review the accounts and representation letter,
- consider whether confirmation will be required from the service providers (at least for the generic part) and organize such confirmation at planning phase (before year end),
- determine who will be responsible for reviewing the entity specific parts of the representation letter (uncorrected misstatements, other representation made throughout the audit...).

The directors should keep in mind that they should only make the representations that are requested in the representation letter when the service provider in charge of providing the service for which a representation is sought has provided them with satisfactory documented confirmation for any given representation.

In order to assist directors in the process of obtaining sufficient comfort on the representations requested by the auditor in the context of the annual audit of a fund's financial statements we have included in the appendix a mapping exercise of an example of a representation letter you may receive from the auditor. You will note that we have identified parties included next to each representation as a suggestion as to who the board could look to provide comfort.

Sample Representation Letter	Party most likely to support
<p>Point 1 Financial Statements and provision of information</p> <p>We have fulfilled our responsibilities for the preparation of the financial statements in accordance with the Financial Reporting Framework as set out in the terms of the audit engagement letter. In particular, the financial statements give a true and fair view in accordance therewith.</p> <p>An extract of these financial statements is attached in Appendix 1, including the [combined] statement of net assets as well as the [combined] statement of changes in net assets of the Fund.</p> <p>Point 2 Information and access</p> <p>We have provided you with:</p> <ul style="list-style-type: none"> a. Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation, contractual arrangements, minutes of all minutes of the meetings of [Shareholders / Unitholders / Partners] and of the Boards of [Directors / Managers] of the [Fund / Management Company] (or summaries of actions of recent meetings for which minutes have not yet been prepared); b. Any additional information that you have requested from us for the purpose of the audit; c. Unrestricted access to persons from whom you have determined it necessary to obtain audit evidence. 	<p>Board</p> <p>Management Company / Administrative Agent / Depository / Domiciliation Agent</p>
<p>Point 3 Completeness and authenticity of the information provided</p> <p>We confirm that the documents and the information provided to you are complete and true and where copies of documents were provided that they were true copies of the originals.</p>	<p>Management Company / Administrative Agent / Depository</p>

Point 4 Reasonableness of accounting estimates

We confirm that the significant assumptions used in making accounting estimates including, where applicable, those surrounding measurement at fair value, are reasonable in view of the Financial Reporting Framework and the Fund's prospectus (when relevant). Disclosures regarding such assumptions and estimates, as well as all uncertainties related thereto, are complete and appropriate.

Point 5 Completeness of transactions / arm's length

All transactions have been recorded in the accounting records and are reflected in the financial statements, in accordance with the Financial Reporting Framework and have been conducted on an arm's length basis.

Point 6 True and fair representation of the FS

All contractual arrangements entered into by the Fund have been properly reflected in the accounting records and where material, or potentially, have been disclosed in the financial statements in accordance with the requirements of the Financial Reporting Framework

Point 7 Misstatement

The effects of uncorrected misstatements, if any, are immaterial, both individually and in the aggregate, to the financial statements as a whole. [A list of any uncorrected misstatements is included in Appendix 2 of this letter.]

Point 8 Misstatement

We acknowledge the fact that the corrected misstatements included in the summary of corrected misstatements in Appendix 3 of this letter, have been recorded in the financial statements.

**Management Company /
Administrative Agent /
Board**

**Management Company /
Administrative Agent /
Board**

**Management Company /
Administrative Agent /
Board**

**Management Company /
Board**

**Management Company /
Administrative Agent**

Point 9 Changes to the control environment

We confirm that we are not aware of any significant changes in the control environment including the IT systems and the controls procedures in place at the [Fund administrator / Transfer Agent / Depository Bank / Management Company] since [date of end of the period covered by the controls report] .

Point 10 Related Parties

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Financial Reporting Framework and have been conducted on an arm's length basis.

Point 11 Related Parties

We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware, including (if any) any transactions outside the normal course of business.

Point 12 Fraud

We acknowledge our responsibility for the design, implementation and maintenance of adequate accounting records and internal controls to prevent and detect fraud and errors. In this regard, the management company, investment manager, fund administrator and other service providers have been appointed to manage these controls on a day-to-day basis. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware. We consider that our internal control environment allows the detection and prevention of fraud and errors that could lead to material misstatements in the financial statements. Where applicable, we have communicated to you all significant deficiencies in internal control of which we are aware.

**Management Company /
Administrative Agent /
Depository**

**Management Company /
Administrative Agent /
Board**

**Management Company /
Administrative Agent /
Board**

**Management Company /
Administrative Agent /
Depository**

Point 13 Fraud

We believe that there are no significant risks that the financial statements may be materially misstated as a result of fraud. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves either the Directors, management, or staff of the service providers who have a significant role in the accounting or internal control systems or others where the fraud could have a material effect on the financial statements.

Point 14 Fraud

We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, service providers, regulators or others.

Point 15 Non-compliance with laws and regulations, the prospectus and litigation

We have disclosed to you all known instances of non-compliance or suspected non-compliance

- a. with laws and regulations whose effects should be considered when preparing financial statements.
- b. with the Fund's prospectus (including investment policy and restrictions, valuation policy, fees and expenses, treatment of subscriptions and redemptions)

Point 16 Litigation

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing financial statements and such matters have been appropriately accounted for and disclosed in accordance with the Financial Reporting Framework. We are not aware of any pending or threatened litigation, proceedings, hearings or claims negotiations which may result in material loss to the Fund.

**Management Company /
Administrative Agent /
Board**

**Management Company /
Administrative Agent /
Board**

**Management Company /
Administrative Agent /
Depositary**

**Management Company /
Administrative Agent /
Board**

Point 17 **Assets and Liabilities - contingent, commitment, etc.**

We have recorded or disclosed, as appropriate, all assets and liabilities, both actual and contingent, and have disclosed in the financial statements all guarantees, commitments and liens that we have given to third parties, in accordance with the requirements of the Financial Reporting Framework.

Point 18 **Ownership of assets**

The Fund has satisfactory ownership of all assets (those than can be held in custody and other assets) and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, including assets pledged or assigned as security for liabilities and performance of contracts, except as disclosed in the financial statements. All portfolio securities are transferable and restricted securities held, if any, have been disclosed as such.

Point 19 **Going Concern**

Considering the Fund's net assets, liquidity, current commitments and future plans, we confirm that we have a reasonable expectation that the Fund will continue in operational existence for a period of at least one year from the date of this letter.

Point 20 **Subsequent Events**

Any events subsequent to the date of the financial statements, for which the Financial Reporting Framework require adjustment or disclosure have been adjusted or disclosed.

Point 21 **Correspondence with the CSSF**

We have provided you with a copy of all correspondence with the relevant supervisory authority, including the Commission de Surveillance du Secteur Financier "CSSF".

Management Company /
Administrative Agent /
Board

Management Company /
Administrative Agent
/Depositary

Management Company /
Board

Management Company /
Administrative Agent /
Board

Management Company /
Administrative Agent /
Board / Depositary

Point 22 **02/77 Procedures**

We are responsible for ensuring that any net asset value (“NAV”) computation errors and / or breaches of the applicable investment restrictions are dealt with, in accordance with the guidelines set out in CSSF Circular 2002/77 when applicable, and in any case, in a manner that is equitable.

**Management Company /
Administrative Agent /
Depositary**

Point 23 **02/77 Procedures**

Any NAV computation error and/or breach of applicable investment restrictions of which we have become aware have been communicated to you and to the CSSF as required by the Law.

**Management Company /
Administrative Agent**

Point 24 **AML**

We have ensured that procedures has been established to prevent money laundering and terrorism financing as stipulated in laws, regulations and circulars issued by the CSSF (when applicable)

**Management Company /
Administrative Agent**

Point 25 **AML**

We disclosed to you the information based on which we ensure the identification of clients and, where applicable, the beneficial owners of the Fund.

**Management Company /
Administrative Agent**

Point 26 **AML**

We informed you, within the scope of the applicable regulation, of any declaration to the State Prosecutor (Parquet de Luxembourg) and/ or to the CSSF regarding money laundering and terrorism financing. OR [We did not make any declaration to the State Prosecutor (Parquet de Luxembourg) and/ or to the CSSF regarding money laundering and terrorism financing.]

**Management Company /
Administrative Agent /
Board**

Point 27 EU Public Interest Entities and Listed Entities

We confirm that, as of the closing date, the Fund is an entity whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point (21) of Article 4(1) of Directive 2014/65/EC); OR [We confirm that, as of the closing date, the Fund is not an entity whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point (21) of Article 4(1) of Directive 2014/65/EC.]

Point 28 EU Public Interest Entities and Listed Entities

We confirm that, as of the closing date the Fund is quoted or listed on a regulated market outside the EU or marketed under the regulations of a regulated market outside the EU OR [We confirm that, as of the closing date, the Fund is not quoted or listed on a regulated market outside the EU or marketed under the regulations of a regulated market outside the EU.]

Point 29 LFR Reqs

We confirm that the description of the Fund's organisation and its internal control and operating procedures as described in the Report on the Activity of the Fund (the "Report") for the year / period ended and as of the closing date is a complete description and accurately describes the way in which the Fund operates. We are not aware of any matters, including contractual agreements, arrangements and operations of the Fund, that are not appropriately described in the Report and that could significantly impact the operations of the Fund and the Report.

Point 30 LFR Reqs

In respect to the Report, we have provided you with all the descriptive parts that are included in the Report addressing all requirements of CSSF circulars 02/81, 02/77 (NAV errors), 04/146 (late trading and market timing) and 11/512 (risk management).

**Management Company /
Administrative Agent**

**Management Company /
Administrative Agent**

**Management Company /
Administrative Agent /
Depositary**

**Management Company /
Administrative Agent**

Point 31 LFR Reps

We confirm that, other than disclosed within the Report (if any), during the period covered by the report:

- a. No other foreign countries in which the Fund is registered for public distribution;
- b. No major problems related to other intermediaries occurred;
- c. No investor complaints lodged with the Central Administration in Luxembourg
- d. In the context of the management of the assets of the Fund, no party in relation with the Fund received or paid any retrocession and/or rebate of any nature, except some retrocessions might have been paid to the distribution network;
- e. No known instances of market timing and late trading occurred;
- f. No soft commission or other similar arrangements were entered into by the investment managers or any of their connected;
- g. We have not received any comments specifically related to the Fund from the CSSF on the risk management process provided.
- h. No transactions made for the sole purpose of window dressing and or portfolio churning
- i. No activity performed by the Fund which is not in accordance with its statutes.

Point 32 LFR Reps

We confirm that we are in agreement with the assessments you have made in the Report, the observations and points of improvements and overall conclusion.

Point 33 LFR Reps

We confirm that, as of the date of this letter, we are not aware of any matter or event subsequent to the closing date that would require to adjust the Report.

Point 36 Compliance with the Law of 12 July 2013 on alternative investment fund managers

We confirm that all periodical information to be provided to investors, when not included in the annual report of the Fund, have been disclosed to investors as required by the applicable law.

**Management Company /
Administrative Agent /
Global Distributor**

**Management Company /
Board**

**Management Company /
Board**

**Management Company /
Board / Investment
Manager**

Point 37

We confirm that material changes (if any) during the financial year in the information required to be provided to investors before they invest in the Fund, has been disclosed in the Fund's annual report.

Management Company /
Administrative Agent /
Investment Manager

Point 38

We confirm, that we have taken the decision not to include disclosures on the remuneration of the AIFM in the annual report of the Fund. Such required disclosures have, however, been made available to investors and relevant competent authorities.

Management Company /
Board

(Signature)
(Name of board member of the Fund/the
Management Company)

(Signature)
(Name of board member of the Fund
/Management Company)

Encl.-

- Appendix 1: Appendix 1: [Combined] statement of net assets and [combined] statement of changes in net assets
- Appendix 2: Summary of uncorrected misstatements
- Appendix 3: Summary of corrected misstatements
- Appendix XX: List of Funds covered by representation letter

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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