

Paris, le 14 septembre 2011

International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA

Messieurs,

Je vous prie de trouver ci-joint les observations du Haut Conseil du commissariat aux comptes relatives à la consultation de l'IAASB sur les restitutions de l'auditeur et le rapport d'audit.

Autorité française de surveillance de la profession de commissaire aux comptes, le Haut Conseil est en charge de l'identification des bonnes pratiques professionnelles. Il émet un avis sur les projets de normes d'exercice professionnel en vue de leur homologation par arrêté du Garde des Sceaux. Le Haut Conseil porte à ce titre un intérêt particulier aux travaux normatifs menés au plan international par l'IAASB.

Le Haut Conseil est favorable à la conduite d'un projet visant à améliorer les restitutions de l'auditeur au plan international. Ces restitutions, en tant que résultats apparents du processus d'audit, pourraient utilement faire l'objet d'une harmonisation internationale renforcée.

Vous trouverez en annexe ses réponses détaillées. Parmi les points à mettre en exergue, le Haut Conseil propose les évolutions suivantes :

- prévoir au sein du rapport d'audit ISA des informations additionnelles sur les éléments essentiels à la bonne compréhension des comptes, tout en veillant à ce que l'auditeur ne se trouve pas amené à être dispensateur d'informations qui relèvent de la compétence de l'entité ;
- conserver les avantages d'une conclusion unique et claire portant sur les états financiers audités (modèle "pass or fail") ;
- développer une réflexion internationale sur les informations soumises à la vérification des auditeurs, en vue d'une plus grande convergence en la matière : cette réflexion devrait s'appuyer sur une identification plus précise des besoins des parties prenantes ;
- prendre en compte dans la réflexion sur l'évolution des restitutions de l'audit, le caractère d'intérêt général de la mission de l'auditeur légal et son rôle d'alerte auprès des autorités publiques.

Restant à votre disposition pour toute précision que vous jugeriez utile, je vous prie d'agréer, Messieurs, l'expression de mes salutations distinguées.

Christine Thin
Présidente

Appendix: H3C answers to the questions included in the IAASB consultation paper

The H3C welcomes the opportunity to comment on the consultation paper issued by the International Auditing and Assurance Standards Board on auditor reporting and audit report.

The H3C is the French public oversight body for statutory audit. Its mandate includes the identification of professional best practices and the provision of endorsement advice on professional standards before their incorporation into the French legal framework. The H3C is particularly interested in the IAASB standard-setting process at an international level.

The H3C wishes to express its support for a project on improvement of auditor reporting at an international level. Auditor reporting, as a visible output of the audit process, deserves enhanced international harmonization.

The H3C response detailed hereafter include following proposals:

- integrate additional information in the audit report on matters of importance for the understanding of financial statements, taking care that the auditor should not be in charge of disclosing information falling under the audited entity's responsibility,
- retain the advantages of a single and clear conclusion on the financial statements ("pass or fail" model),
- continue discussions on the scope of information submitted to auditors at an international level in order to improve convergence, based on identification of the precise needs of the stakeholders,
- take into consideration in the debate on auditor reporting the fact that the statutory auditor's has an assignment that serves the public interest, and a role of reporting vis à vis different public authorities.

1. Do respondents have any comments about the issues identified in Section II regarding the perceptions of auditor reporting today?

The issues raised in the consultation paper relate mainly to the quantity and quality of information issued by the entity or its auditors that is available to the stakeholders. The IAASB can propose changes through its standard setting process by putting forward the appropriate level of work to be performed by the auditor and by describing the most effective way to deliver the results of this work through auditor reporting. But the issues raised in the consultation paper also relate to the prerogatives and missions of regulators and other standard-setters in charge of defining the nature and extent of information an entity should make available, according to circumstances. The entity should remain in charge of preparing the information delivered. The auditor should not become the issuer of information the entity is responsible for.

We consider that the ISA auditor report should contain additional useful information. Along this line, a requirement to describe justification of assessment has been incorporated in law in 2003 in France, for all statutory audit reports.

2. If respondents believe changes in auditor reporting are needed, what are the most critical issues to be addressed to narrow the information gap perceived by users or to improve the communicative value of auditor reporting? Which classes of users are, in the view of respondents, most affected by these issues? Are there any classes of users that respondents believe are unaffected by these issues?

We consider that auditor reporting deserves enhanced harmonization at an international level, to facilitate a common understanding of audited financial information delivered to international public, and a common understanding of the meaning of the assurance attached to it.

We consider that including additional relevant information on the audit work performed adds value to the auditor's report, and can fill, at least partly, the need for more information underlined in the consultation document (called "information gap").

While including more information in the report, the advantages of the "pass or fail" model should be maintained, especially for users of the audit report that are less familiar or less specialized in the area of accounting.

Creating an IAASB prescription describing the nature and extent of additional information that should be included in the audit report in this regard would facilitate international convergence on this aspect.

(See also our response to question 3).

3. Do respondents believe that changes are needed for audits of all types of entities, or only for audits of listed entities?

Changes in auditor reporting would benefit to audits of all types of entities.

Using a single format for the report on audit of financial statement, whatever the type of entity audited, helps avoid confusions in the users' mind about the meaning of an audit. The same work performed should lead to the issuance of the same type of report. The nature of the engagement rather than the size of the audited entity, should determine the format of the report to be used.

In addition to reporting on the financial statements as a whole, reporting on specific items could usefully be considered, depending on the type of entity. Some specific reporting requirements could depend on certain characteristics of the entities, like their sizes, numbers of employees, whether shares are listed or not, etc. Other reporting requirements could be linked to specific situations faced by the entity, like reporting on flows in capital, special operation on shares ... (see also our answer to question 14).

Harmonization at an international level on these aspects of the statutory auditor's assignment and on the reports issued would have a positive impact on the information delivered to the users of financial information. We believe that initiatives of the IAASB to deal with reporting on specific items could promote harmonization, keeping in mind that jurisdictions may choose to impose or not those additional assignments.

Exploring Options for Change

Format and Structure of the Standard Auditor's Report

4. Respondents are asked for their reactions to the options for change regarding the format and structure of the standard auditor's report described in Part A. Do respondents have comments about how the options might be reflected in the standard auditor's report in the way outlined in Appendix 1 of this Consultation Paper?

As reminded in the consultation paper, generically worded paragraphs explaining respective responsibilities of the entity and of the auditor provide little value to users of the report. They are often considered as "disclaimers" or "caveat" paragraphs. We do not consider that expanding them by giving more generically worded details would change this perception and the value of auditor report.

Removing entirely introductory paragraphs (as proposed in the consultation paper §42) would not be satisfactory: the report should include a brief paragraph to present shortly, through a clear wording, the role of the auditor on the financial statements (see further our answer to question 5).

Creating other tools with educational purposes could help reduce the expectation gap without impairing the clarity of the report.

We consider it important to use a clear wording when writing the report in order to be understood by a broader audience than only specialists.

We would like to stress the importance of maintaining both the advantages of the "pass or fail" model and of additional information of value about the audit, which could be achieved through an appropriate structure of the report.

5. If the paragraphs in the current standard auditor's report dealing with management and the auditor's responsibilities were removed or re-positioned, might that have the unintended consequence of widening the expectations gap? Do respondents have a view regarding whether the content of these paragraphs should be expanded?

See our response to question 4. In France, the choice has been made not to develop the standard paragraphs dealing with management and the auditor's responsibilities, unlike what has been done in the current ISA700 auditor's report example. In our view, the effect of this kind of paragraphs in reducing the "expectation gap" has not been useful (as mentioned in consultation paper §39). The French report includes two short sentences, one on the role of the entity in producing the financial statements, and one explaining that the auditor issues an opinion on these financial statements.

In our view, the "justification of assessments" which allows the auditor to give details, in accordance with the specific situation faced, about the work performed on important aspects, presents more value than a generic description of responsibilities.

B. Other Information in Documents Containing Audited Financial Statements

6. Respondents are asked for their reactions to the possibility that the standard auditor's report could include a statement about the auditor's responsibilities regarding other information in documents containing audited financial statements. Do respondents believe that such a change would be of benefit to users?

We recommend that the auditor expresses his conclusions on the work performed on other information. In France, the auditor mentions in the audit report if he has (or not) any observation about financial information stated in the management report or included in other documents addressed to the shareholders, that he has reviewed according to law. We consider users could find more benefits in conclusions expressed by the auditor, than in a statement of responsibilities.

Further international harmonization on other information reported on by the auditor would facilitate a common understanding of the reports and comparability for international users.

7. If yes, what form should that statement take? Is it sufficient for the auditor to describe the auditor's responsibilities for other information in documents containing audited financial statements? Should there be an explicit statement as to whether the auditor has anything to report with respect to the other information?

See our response to question 6. We consider that there should be an explicit statement on the observations of the auditor on other information.

C. Auditor Commentary on Matters Significant to Users' Understanding of the Audited Financial Statements, or of the Audit

8. Respondents are asked for their views regarding the auditor providing additional information about the audit in the auditor's report on the financial statements.

We are in favor of including more information of value about the audit performed on important matters of the financial statements.

Auditor can provide additional information about the audit to users through justification of assessments, that is required for all statutory audit reports in France. This information should enable the reader of the report to understand the basis for the opinion issued. The justification should not replace information whose issuance is the entity's responsibility. It relates usually to matters that are key to understand the financial statements, like important accounting options, estimates involving professional judgment, disclosures, etc.

Emphasis of matter paragraphs in the audit report enables the auditor to draw the reader's attention on important matters disclosed in the financial statements, but it does not provide any additional information about the audit.

9. Respondents are asked for their reactions to the example of use of justification of assessments in France, as a way to provide additional auditor commentary.

See our response to question 8. After several years of experience in the use of justification of assessment, we consider that it answers the need for more information on key matters, without replacing the obligation of the entity to disclose information.

In addition, we experienced that the existence of this justification positively contributes to improve the quality of the disclosures prepared by the entity on the items the auditor will refer to in his justification.

10. Respondents are asked for their reactions to the prospect of the auditor providing insights about the entity or the quality of its financial reporting in the auditor's report.

The prospect of the auditor providing insights about the entity or the quality of its financial reporting in the auditor's report would imply a change in his role. We consider that the fact that the auditor checks or confirms information that has been elaborated by others constitutes a guarantee and that the distribution of roles should be maintained. Keeping in mind this principle, enquiring further about the need for more information to be disclosed by the entity, and for the need for assurance on this information would be necessary.

We furthermore support the role of alert attached to the statutory auditor's assignment, in case of going concern issues. This role could be organized and further harmonized at an international level. The reporting of the auditor on a timely basis to public authorities, through direct communication, should be developed.

D. An Enhanced Corporate Governance Model: Role of Those Charged with Governance regarding Financial Reporting and the External Audit

11. Respondents are asked for their reactions to the options for change relating to an enhanced model of corporate governance reporting, as described in Section III, Part D.

The options for changes relating to the interaction between auditors, audit committees and stakeholders described in part III D of the consultation paper rely on the existence of audit committees with responsibilities in the audit process, which may vary according to jurisdictions. The proposals would not be applicable for all audits and in all jurisdictions.

To evaluate the possible benefits of the options suggested by the consultation paper, it would be appropriate to identify which type of additional information could be disclosed by the entity to meet the stakeholders' needs. The second step would consist in determining if the auditor should check and provide assurance on this additional information.

In France, the chairman of the board (conseil d'administration or conseil de surveillance) of a listed entity must publish each year a report on governance and internal control. The auditor is required by law to issue a specific report on the chairman's report, after having performed verifications prescribed by an endorsed professional standard. Stakeholders have access to both reports.

12. To the extent that respondents support this model, what challenges may be faced in promoting its acceptance? Also, what actions may be necessary to influence acceptance or adoption of this model, for example, by those responsible for regulating the financial reporting process?

See our response to question 11.

13. Do respondents believe assurance by the auditor on a report issued by those charged with governance would be appropriate?

See our response to question 11. The need for assurance provided by the auditor on a report issued by those in charge of governance, management or oversight will depend on the nature and extent of information included in such a report, and its ability to satisfy the stakeholders need.

E. Other Assurance or Related Services on Information Not Within the Current Scope of the Financial Statement Audit

14. Respondents are asked for their reactions to the need for, or potential value of, assurance or related services on the type of information discussed in Section III, Part E.

The verification by an auditor contributes to the reliability of the information and to the confidence users will place in it.

In France, law requires in several cases the auditor to review specific information in addition to year-end financial statements: For instance, the auditor should review interim financial information, information on remunerations, information on terms of payment, social statements and reports on internal control. The auditor can also be asked by the entity, on a voluntary basis, to issue a certificate to attest specific information linked to financial or accounting information, according to its specific needs.

15. What actions are necessary to influence further development of such assurance or related services?

See our response to question 14. Identification of information needed by stakeholders would be a first step before deciding whether the auditor should provide assurance or a service on it. In this respect, a comparative approach at an international level and surveys involving all stakeholders could be useful.

Implications of Change and Potential Implementation Challenges

16. Respondents are requested to identify benefits, costs and other implications of change, or potential challenges they believe are associated with the different options explored in Section III.

Changes in format of the standard report (a) on the reporting on work performed on other information accompanying audited financial statements (b) and auditor commentary on matters significant to users' understanding of the financial statements (c), are not likely to generate additional audit costs, as the level of work performed and the scope of information to check remain unchanged.

Additional costs will occur for the entity if the auditor is asked to perform more verification on additional information that is not under his current scope of investigation. These costs should be balanced with the public interest attached to the increase in security.

17. Do respondents believe the benefits, costs, potential challenges and other implications of change, are the same for all types of entity? If not, please explain how they may differ.

The evaluation of benefits can vary according to the type of stakeholders, and their respective information needs. However, the benefits of clarity and security resulting from a common approach of auditor reporting for all types of entities should also be considered (see also our response to question 3).

18. Which, if any, of the options explored in Section III, either individually or in combination, do respondents believe would be most effective in enhancing auditor reporting, keeping in mind benefits, costs, potential challenges, and other implications in each case? In this regard, do respondents believe there are opportunities for collaboration with others that the IAASB should explore, particularly with respect to the options described in Section III, Parts D and E, which envisage changes outside the scope of the existing auditor reporting model and scope of the financial statement audit?

Options (a) (b) and (c) could be implemented on a short term basis since they do not imply additional verifications or changes in the role of the auditor.

If the decision was made to go further than the current legal frameworks, options (d) and (e) would imply an increase in the audit scope and may require legislative measures.

19. Are there other suggestions for change to auditor reporting to narrow the information gap perceived by users or to improve the communicative value of the auditor's report?

We have no other suggestions than those already mentioned.