

Paris La Defense, September 16th, 2011

International Federation of Accountants
International Auditing and Assurance Standards Board
Mr. James Gunn, Technical Director of IAASB
545 Fifth Avenue - 14th Floor
New York NY 10017 USA

Re: Comments on the May 2011 IAASB Consultation Paper “Enhancing the Value of Auditor Reporting: Exploring Options for Change”

Dear Mr. Gunn, dear Sirs,

MAZARS is pleased to submit this letter in response to the request for comments from the IFAC IAASB, on its Consultation Paper “Enhancing the Value of Auditor Reporting: Exploring Options for Change”.

MAZARS is a unique integrated partnership with a global reach. It operates as one integrated international partnership in 61 countries as of 1st January 2011, with nearly 13.000 professionals, leaded by more than 730 partners, with 15 additional countries where MAZARS is present through correspondents and joint ventures (see MAZARS 2010 annual report together with its more recent updates, its 2010 IFRS joint-audited consolidated financial statements, and all the annual reports published since 2005 on <http://annualreport.mazars.com>).

MAZARS is a member of the International Federation of Accountants’ (IFAC) Forum of Firms. MAZARS fully supports, since many years now, the initiatives of IFAC, the Forum of Firms and the Transnational Auditors Committee, to promote high standards in the international practice of auditing. All MAZARS firms and correspondents are committed to support those initiatives.

We want to preface our comments with general consideration that we fully support the implementation of international standards, application and other explanatory materials, and practice statements strengthening the audit quality. MAZARS is therefore fully committed to support the IFAC initiatives, as well as those of the regulators in these areas of common concern.

As reference is made in Appendix 2 of the IAASB Consultation Paper to the European Commission (EC) Green Paper on Audit Policy: *Lessons from the Crisis* of October 2010, which covers a wide variety of audit and auditors reporting related topics, do note that the MAZARS response to the EC Green Paper can be accessed at:

<http://www.mazars.com/Home/News-Media/Latest-news2/Mazars-contribution-to-the-Green-Paper>

We would be pleased to discuss our detailed comments submitted hereafter with you and remain at your disposal, should you require further clarification or additional information.

Yours sincerely



Jean-Luc Barlet
MAZARS Chief Compliance Officer

General comment

MAZARS fully supports the IAASB initiative to further explore the topic of auditors reporting from an international perspective.

A number of lessons should be drawn from the recent financial crisis. MAZARS shares the view that a new dimension should be added to the role of truly independent auditors by increasing the range of information over which assurance is offered and by boards and auditors being more transparent on the main findings from the audit. As part of its commitment to serve the public interest, the profession should always seek to improve quality audit.

We recognise that investors and others are calling for more extensive public reporting, such as of key issues discussed by the auditors with the audit committee and for more high quality information on risk and other issues in narrative reporting. The latter may give rise to changes in the scope of the audit.

MAZARS believes that the auditors have to adapt their role and their audits to an evolving reporting model, conduct audits in a manner that contributes to fostering sustainable growth in the audited entity having regard to the economic, financial, regulatory and risk environment in which it operates, to become more dynamic, with a focus on added value. Within a well-defined framework, auditors could be asked to provide assurance on some other aspects of narrative or regulatory reporting. The possibility of extending the auditors' role to encompass the area of corporate social responsibility is worthy of further exploration.

We thus support disclosure of key issues discussed by the audit committee and management with the auditors. This should be provided in the audit committee's report in the case of large listed companies and the auditors should indicate whether they concur with these disclosures.

We also support a review, with significant investors' involvement, of the narrative reporting requirements and, related to these, the scope of the audit of large listed companies. The review should consider whether there is merit in an extension of the scope of the audit to cover, for instance, assurance on statements related to the principal risks and risk management.

This May 2011 IAASB Consultation Paper on "Enhancing the Value of Auditor Reporting: Exploring Options for Change" is in line with the January 2011 IAASB Proposed Strategy and Work Program, and its Chairman's Statement, to place particular emphasis on engaging in dialogue with key stakeholders, mainly regulators other stakeholders, and thus balancing the time spent on developing or revising standards, promoting their adoption, and responding to concerns arising from implementation, while remaining flexible to new developments.

MAZARS considers that the objective of a "stable platform" should be also considered, as it is a key issue to facilitate the convergence and the implementation of the ISAs in the different countries. Stable Clarified ISAs and ISAEs, which have been developed after extensive due process and are widely respected, could favour harmonisation of quality auditing practices.

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

MAZARS agrees globally with the issues identified by IAASB regarding the perceptions of auditor reporting today, in particular the illustration of the “Expectation Gap”.

We would be pleased to participate in an educational programme to explain audit methodology to institutional investors and others with a major interest in auditing, including regulators, and we would encourage them to participate in such an initiative.

Several approaches including greater conciseness, public justification of the audit opinion and disclosure of any and all information of public interest, should for sure be considered. Some of these proposals are more formally set out in some Member States in Europe than in others. A larger survey than those already performed could help to assess the effectiveness and the relevance of these approaches for the users.

As an example, on financial health of the companies, auditors have regular contact with the audited entities and in the course of their work, they have the opportunity to become aware of issues bearing on its financial health. Where there is a deterioration threatening the applicability of the going concern concept, the auditors will need to determine how best to respond to the new circumstances. The procedures for doing this are also more formally set out in some Member States in Europe than in others.

But we believe the real issue and the key questions are:

- ✓ What information should be provided on audit findings and key discussions held between the auditors and management and the board/ audit committee, and
- ✓ To what extent auditors should draw matters to readers’ attention (through emphases of matter) when the financial statements are considered to be true and fair but certain issues in assessments or estimations need to be highlighted. One way of doing this, which already happens in some Member States in Europe, would be by adding a paragraph after the audit opinion setting out the key issues arising during the course of the audit.

Alternatively, the board or the audit committee could identify the key issues in the annual report with the auditor concurring with the disclosures made, if applicable.

There would be for sure merit in providing additional information to shareholders and other readers of audit reports on key issues arising during the audit including key matters discussed by the auditor with management and the board/audit committee. This information should be provided in corporate governance reports to shareholders and the auditors should indicate whether they concur with it. We believe this is a more appropriate way to report the auditors’ findings as it indicates the management’s and board’s acceptance that the issues have been raised with them and, where appropriate, provides an opportunity to comment.

It has the additional merit of addressing potential confidentiality issues. The relevant information is generally already discussed by the auditors and the board/audit committee. Without prejudice to different company law practices worldwide, consideration should be given to how it could be made this information available to shareholders in summary form.

In France as an example, the French Institute (CNCC) has already introduced measures in 2003 to change the auditors' report in order to address the information gap.

As stated above, we are in favour of the auditor providing additional information about the audit in the auditors' report, but only to the extent that the responsibility for providing information about the entity remains with the entity and not the auditor.

The French reporting model, whereby the auditors "justify their assessments" in the auditors' report, has been under scrutiny, since the current debate on the auditors' communication/reporting started with the IOSCO consultation paper. It is also referred to in the European Commission's Green Paper, in the IAASB Consultation Paper and, more recently, in the Concept Release of the PCAOB.

In order to contribute to the current international debate on auditor's communication/ reporting and also to understand users' perception of the justification of assessments, the French Institute (CNCC) mandated a study by an independent consultant. The results of the study have been translated in English and are referred to in the Consultation Paper of the IAASB.

The frequency of communication under the current auditing model appears to be generally adequate, with an annual audit supplemented with a six monthly review in the case of the most significant listed companies. It would only seem appropriate for the auditors to communicate with stakeholders after the audit or the review had been concluded.

In order to improve communication between auditors and stakeholders, primarily shareholders, we believe there would be merit in the auditors attending the general meeting during which the audited financial statements are laid and being prepared to answer previously submitted questions.

Many large listed companies issue their preliminary results very soon after their year-end and publish their audited financial statements well within the maximum period allowed by statute as stock exchanges and/or securities authorities may have earlier filing deadlines.

In accordance with the on-going nature of an audit assignment, we believe auditors should review financial communication disclosed by the audited entity, in addition to the financial statements, and interact with the management and the governance bodies in the event of inconsistencies.

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

Great care should be taken before placing avoidable regulatory burdens on SMEs at present, given their vitally important role in assisting growth and hence employment in the EU.

But we also consider that ISAs allow for proper account to be taken of the audited entity's size and environment, and so should ISA 700 and the auditor's report.

Whilst IAASB has regard to the needs of SMEs and SMPs in drafting ISAs, we note that concerns remain in many Member States in Europe on applying them when auditing such entities.

We share this concern but do not believe the solution is to exempt SMEs and SMPs from audit as it brings benefits to these businesses and the stakeholders in them.

We therefore do not support introducing a “second tier” audit for certain companies as there may be significant costs associated with developing such forms of assurance and they may give rise to new expectation gaps, with auditors and the stakeholders in such companies having different views on the nature and degree of assurance offered.

SMEs face issues bearing on their financial health more frequently than large corporate and therefore statutory audit is a way to follow-up those issues, as stated in our answers to Q.1. and Q.2. above, in the interest of the shareholders and the management, the investors and the stakeholders.

But nevertheless, in the case of unlisted companies, and especially the smaller ones, it needs to be recognised that they may have limited internal accounting resources and care would need to be taken to ensure that imposing shorter deadlines does not jeopardise the quality of the published financial statements.

In some Member States in Europe, a dedicated standard or guidance in respect of SEs has been implemented, to scale mainly documentation requirements to the size of those entities, leading to a significant decrease of the audit costs, whilst still remaining in full compliance with the principle “an audit is an audit”.

Q. 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?

Q. 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?

MAZARS does not believe that by simply changing the format, structure and wording of the auditors’ report will be enough to close the “information gap”.

But changing the “boiler plate” wording of the description of an audit and the respective responsibilities of management and the auditor could make them more understandable to users and thus may be worth exploring, as is the idea of positioning the opinion first in the report.

We do not think that such changes may have the unintended consequences of widening the expectation gap, if combined with other measures as stated in our answers to Q.1. and Q.2. above.

Q. 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?

Q. 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?

In some Member States in Europe, the auditors explicitly report in their auditors' report on the consistency of the information in the management report with the financial statements and on the fairness of the information presented.

In others, the auditors' report includes a statement about the auditors' responsibilities regarding other information in documents containing audited financial statements. This could potentially widen the expectation gap, since users may derive from the additional statement implicit assurance that everything in the other documents containing audited financial statements has been verified, when in fact it has simply been read.

It would be clearer if the auditors were to provide explicit assurance on the other information containing or accompanying the financial statements, but this would require an extension of the scope of their engagement. This additional report could make an explicit reference to the documents, or the parts of the documents, covered so as to reduce the risk of misunderstanding.

Q. 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.

As already mentioned in our answers to Q.1. and Q.2. above, there would be for sure merit in providing additional information to shareholders and other readers of audit reports on key issues arising during the audit including key matters discussed by the auditors with management and the board/audit committee.

Without prejudice to different company law practices worldwide, consideration should be given to how it could be made this information available to shareholders in summary form.

But it is important to note that companies' reporting is not just about retrospective financial information! And timing of the audit report has to be connected with preliminary announcement.

On the one hand financial reporting is getting more complex and difficult to interpret. To certain extent, as a consequence of this, narrative reporting is developing fast. Both call for an evolution in the role of auditors.

More precisely, it would be helpful to consider further the possibility for the auditors to clearly offer assurance connected to narrative reporting including some or all of the following:

- ✓ disclosures on the audited entity's business model(s);
- ✓ analysis of reported performance;
- ✓ financial reporting judgements;
- ✓ preliminary announcement, or perspectives in terms of future developments and performance;
- ✓ identification, assessment and treatment of risks, risk appetite, sensitivity analysis and risk volatility ...
- ✓ internal control;
- ✓ talent management;
- ✓ CSR;
- ✓ corporate governance, including the audit process and audit reporting...

The role of statutory auditors, in relation to information provided on corporate social responsibility issues, should be further explored. We support initiatives which develop relevant frameworks, good practice or standards in the field of CSR.

Q. 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.

MAZARS is in favour of this, as a way for the auditors to provide additional information about the audit in the auditors’ report, in relation to information about the entity provided by the entity.

It is important that a clear and detailed guidance on this “justification of assessments” is prepared to foster a consistent application worldwide of such a way to provide additional auditors commentary, and make clear that this “justification of assessments” acts in conjunction with qualifications and emphasis of matter paragraphs needed in the opinion part of the auditors’ report.

Q. 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.

See our answers to Q.8. and Q.9. above.

The indirect mode, either information on key issues arising during the audit (including key matters discussed by the auditors with management and the board/audit committee) made available to shareholders in summary form, or the “justification of assessment” of the auditors presented in the audit report, anchored to notes to the financial statements describing the issues, are much applicable and virtuous systems than the auditor providing directly insights about the entity or the quality of its financial reporting in the auditor’s report.

Q. 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.

Q. 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?

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

MAZARS considers that it is a very relevant proposal.

Those charged with governance have a crucial role in the reliability and the sincerity of the financial statements. We are recommending increasing the level of disclosure of key audit findings to all the governing bodies of the company.

There would be merit in considering whether auditors should provide additional assurance on the narrative report accompanying the financial statements and on the corporate governance statement. In addition, the audited entity’s management and governance bodies should be encouraged to include in the above appropriate statements on their risk assessment for the business and on its financial health.

As corporate governance models differ from one country to another, this would require significant changes to companies’ law and an in-depth dialogue between all the stakeholders to ensure consistent application.

Q. 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.

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

See our answers to Q.8. and Q.9. above.

A preliminary step before requiring additional assurance to be provided is to understand the real needs of users and stakeholders, and to develop an appropriate reporting framework in order to respond to these needs. As soon as there is a reporting framework, the auditor will be in a position to design procedures to provide assurance and report on that information. The progress made by the IAASB in the revision of ISAE 3000 will provide a useful resource for such engagements.

Care should, however, be taken to ensure that any additional assurance is regarded as valuable by the shareholders and other stakeholders and that the benefits outweigh the costs. It would also need to be decided whether any additional services were to be undertaken as part of the statutory audit or separate from it.

As we already mentioned in our comment letter on the January 2011 IAASB Proposed Strategy and Work Program for 2012–2014 Consultation Paper, MAZARS welcomes the efforts made by IAASB to widen the broad range of different types of engagements (assurance / non assurance / from the compilation to the audit). Nevertheless, there is still a need to clarify the work effort on each type of engagement, both to facilitate the implementation of the standards among the practitioners and also to reduce the expectation gap with the different stakeholders, underlining the value and the strength of an audit.

Also in line with our previous comment letters to IFAC IAASB, we agree that the degree of judgment that needs to be exercised by the auditor should go beyond mere compliance with standards. Experience shows that the bringing together and discussion of two independent viewpoints, as occurs in a joint audit, assists in making sound judgements and thus contributes significantly to quality assurance. This is particularly true in an environment governed by “principles-based” IFRS that rely heavily on judgement.

With a clear definition and understanding of each other’s role, auditors could also liaise more extensively with supervisors. Liaison with the supervisors is particularly needed in the case of banks and other financial institutions posing systemic risk. This would contribute to early warning signals being provided about substantial risks emerging in individual institutions or in the markets more generally. Within a clearly defined framework, auditors should also be able to contribute to financial stability by providing additional assurance on issues related to the identification and management of risks.

Actions necessary to influence further developments of such assurance or related services will vary between countries. At present in Europe, the debate launched by the European Commission with its Green Paper may be a good platform to influence such developments.

Q. 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.

The response to this question on the costs/benefits of each option depends on what is already in place in each country, in terms of governance structure, auditor’s reporting...

As already stated above, MAZARS believes that changes to the format of the auditors' report (option A) may improve the clarity of the report, but we do not believe that such changes will be of much help in reducing the information gap. The cost of such changes should be relatively low.

We believe that providing assurance on the information covered by ISA 720 (option B) could be of great benefit to users, even more so if such assurance is explicitly given in a report or in a section of the auditor's report. As this is already in place in some jurisdictions, incremental costs will vary depending on the country.

We believe that the benefits to users of introducing additional information in the auditors' report on a model similar to the French model (option C) are high in comparison. Costs may be not so high in terms of training the auditors, internal quality review for the firms, discussions with the audit clients and their lawyers, and we strongly believe that the benefits outweigh the costs.

Alternatively, the corporate governance model (option D) probably bears high potential benefits with a right balance between those who provide information and those who give assurance on it. Its cost may be high, since it requires a new report by the audit committee and a new report by the auditor on this report.

For additional assurance on new topics (option E), care should be taken to ensure that any additional assurance is regarded as valuable by the shareholders and other stakeholders and that the benefits outweigh the costs.

Q. 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.

See our answers to Q.3. above, for SMEs, and Q.15. above, regarding bank and financial institutions posing systemic risks.

Q. 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?

MAZARS strongly believe that a comprehensive and consistent "reform package" could produce reduction of the "Expectation Gap" and enhance financial security. IAASB should engage with the regulators to promote these options through constructive dialogue that would serve the public interest.

Q. 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??

MAZARS fully subscribes to the comments made on excessive profusion of information in financial reporting. The financial statements, together with the other information, have become so extensive that they cannot possibly be read by the average user, leading to this "information gap".