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Mr. James GUNN
Technical Director
IAASB
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CC.AB.CG.CB 20120787

Re: Invitation to Comment: Improving the Auditor's Report

Dear Mr. Gunn,

The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) are pleased to provide you with their comments on the IAASB Invitation to Comment on Improving the Auditor's Report (hereafter ITC).

We agree with the premise of the ITC that the auditor's report is the auditor's primary means of communication with entities' stakeholders, but that more than ever before, however, users of audited financial statements are calling for more pertinent information for their decision-making in today's global business environment with increasingly complex financial reporting requirements. The global financial crisis also has spurred users to want to know more about individual audits and to gain further insights into the audited entity and its financial statements. And while the auditor's opinion is valued, many perceive that the auditor's report could be more informative.

In this context, we fully support the IAASB's project to enhance the value of the auditor reporting. Moreover, we believe that our comments which follow should further enhance the quality of the future auditor's report and meet users' demands for greater transparency about the financial statements and the audit. Responses to the specific questions raised in the ITC are set out below.

Envoyer obligatoirement toute correspondance aux deux adresses ci-dessous :

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,



Claude CAZES
President of CNCC



Agnès BRICARD
President of CSOEC

Overall considerations

Question 1 - Overall, do you believe the IAASB's suggested improvements sufficiently enhance the relevance and informational value of the auditor's report, in view of possible impediments (including costs)? Why or why not?

We strongly support the project of the IAASB to enhance the relevance and informational value of the auditor's report. The underlying IAASB motivation for such a project was the need to provide the users of financial statements with more pertinent information for their decision-making in today's global business environment and with more details about what an audit is and what the output of an audit is.

We fully support the IAASB initiatives that will lead to having an auditor's report that is more informative, more comprehensive, easier to understand and we believe that direction taken by the IAASB to improve the auditor's report is the right one.

Regarding the proposed "Auditor Commentary" section, we already have in France very similar mechanism, called "justification of assessments", that was introduced in the auditor's report by France's Financial Security Act (*Loi de sécurité financière, LSF*) of August 1, 2003 to "enable the user of the report to obtain a better understanding of the reasons behind the statutory auditors' opinion on the financial statements". We have been able to operationalize such system and that has proved to be useful. Accordingly, we believe that the "Auditor Commentary" section will enhance the relevance and the informational value of the auditor's report and, in parallel, enhance the auditor's communication with those charged with governance.

We nevertheless want to stress that it is essential that Auditor Commentary be anchored to a note to the financial statements. Thus we are not supportive of Auditor Commentary that does not follow this principle (example four). We are also not in favour of Auditor Commentary that consists of providing, in case of consolidation, the percentage of the work performed by the affiliated and non-affiliated audit firms (example five) since it blurs the message on who is responsible for the group audit opinion and is inconsistent with ISA 600.

Finally, we consider that the Auditor Commentary section should be required for at least PIEs and also be applicable to SMEs in order to preserve the principle of "an audit is an audit" and "an audit report is an audit report". This nevertheless requires that the Auditor Commentary section be capable of a proportionate application.

Regarding the proposed "Going Concern" section, we support the initiative of the IAASB but we consider that the implementation of such requirement depends on two conditions (1) the clarification in the financial reporting standards of the concepts regarding going concern and (2) the explicit explanation provided by management in the notes to the financial statements to support both the use of the going concern assumption to prepare the financial statements and the absence of material uncertainties. We consider that the implementation of the going concern section may give rise to significant difficulties in the borderline cases where the entities' going concern is subject to uncertainties which are not yet judged as material and where the entity may not want to disclose anything to avoid a self fulfilling prophecy and immediate business failure.

The general support that we give to the IAASB Invitation to Comment is subject to our comments below.

Question 2 - Are there other alternatives to improve the auditor's report, or auditor reporting more broadly, that should be further considered by the IAASB, either alone or in coordination with others? Please explain your answer.

In this ITC, the IAASB focuses almost solely on public reporting but additional attention is needed to show how this influences the auditors' "private" reporting to those charged with governance, including the audit committee.

We are convinced that the improvements of the auditor's report should enhance the quality of dialogue between the audit committee and the statutory auditors. As a matter of fact, prior to issuing his report, the auditor will have to discuss with those charged with governance the content of the report and any departures from standardised language, especially the Auditor Commentary section and, to some extent, the Going Concern section. This should further promote an effective two-way communication between TCWG and the auditors by giving further insights into:

- the audit work performed;
- the significant findings (including for instance any significant deficiencies in internal control, any significant difficulties encountered during the audit, any significant qualitative aspects of the entity's accounting practices and/or any significant matters arisen from the audit that were discussed with management) and;
- the impacts on the auditor's report.

Consequently, the IAASB should further consider the interaction between:

- the auditor's report to the public (ISA 700, 705, 706) and
- the auditor's communication to those charged with governance of the entity (ISA 260)

and the need for a written report from the auditors to the audit committee (as foreseen in article 23 of the European Commission Proposed Regulation on the auditor's report).

In addition, consideration could be given about whether a mechanism whereby the auditor would issue a report to the audit committee and the audit committee to the public as it exists in the UK would be helpful. This would need to be required by law in most countries and it is unclear whether this it would be compatible with the entities' governance structures in every country.

Auditor Commentary

Question 3 - Do you believe the concept of Auditor Commentary is an appropriate response to the call for auditors to provide more information to users through the auditor's report? Why or why not? (See paragraphs 35–64.)

Yes, we consider that the concept of Auditor Commentary is the way to highlight matters that are, in the auditor's judgment, likely to be most important to users' understanding of the audited financial statements or the audit. Accordingly, we believe that this concept is an appropriate response to the call for auditors to provide more information to users through the auditor's report. Such mechanism has been in place in France for a numbers of years now. The French "justification of assessments" was introduced in the auditor's report by the Financial Security Act (*Loi de sécurité financière, LSF*) on August 1, 2003 to "enable the user of the report to obtain a better understanding of the reasons behind the statutory auditors' opinion on the financial statements". As a matter of fact, the "justification of assessments" allows the statutory auditors to express themselves freely, in compliance with the requirements of the related professional standard¹, to explain the procedures and analyses leading to their main assessments and to clarify (i.e. to give the reasons for) the opinion issued. Thus, the statutory auditor highlights matters that are, in his judgment, likely to be most important to users' understanding of the audited financial statements or the audit. We refer to the appendix of our letter that provides illustrations of the "justification of assessments".

We nevertheless want to stress the need for all "Auditor Commentaries" to be anchored to a note to the financial statements.

To illustrate this concept of "Auditor Commentary", the ITC provides five illustrative examples. We have no specific comment on the three first examples:

- the first one (*Outstanding litigation*) is an example of Emphasis of Matter (EOM) paragraph;
- the second one (*Goodwill*) is a "reading guide" of the notes to the financial statements regarding goodwill and;
- the third one (*Valuation of financial instruments*) is probably the closest to our French "justification of assessments" since it appropriately describes the auditor's assessment of risks, the work performed to address the assessed risk of material misstatement and his conclusion on the matter, in the context of the financial statements as a whole.

Consistent with our position that all "Auditor Commentaries" should be anchored to a note to the financial statements, we are not supportive of the fourth example (*Audit strategy relating to the recording of revenue, accounts receivable and cash receipts*) where the auditor could be seen as being the original provider of information about the entity, as this is the role of management and those charged with governance.

We are also not in favour of the fifth (*Involvement of other auditors*) example that provides, in case of consolidation, the percentage of the work performed by the affiliated and non-affiliated audit firms. We do not support identifying the involvement

¹ NEP 705 "Justification of assessment"

of other auditors in the auditor's report because we believe it would be inconsistent with the principle of sole responsibility in ISA 600 (and indeed in the European Commission Statutory Audit Directive (2006/43/EC)). ISA 600 clearly states that the group auditor has sole responsibility for the direction, supervision and performance of the group audit. Referencing another auditor in the auditors' report is prohibited unless required by law or regulation. Moreover, we believe that it may be confusing for the users of the financial statements. We believe that users are most interested in information about areas of importance in the financial statements or key aspects of the auditor's strategy for addressing risks, and are much less interested in which firms within or outside of a global network have participated in the audit. We believe it is in the public interest for users to know who is responsible for the group audit opinion, and, as already mentioned, ISA 600 clearly states that the group auditor has sole responsibility for the group audit.

Question 4 - Do you agree that the matters to be addressed in Auditor Commentary should be left to the judgment of the auditor, with guidance in the standards to inform the auditor's judgment? Why or why not? If not, what do you believe should be done to further facilitate the auditor's decision-making process in selecting the matters to include in Auditor Commentary? (See paragraphs 43–50.)

We agree that the matters to be addressed in Auditor Commentary should be left to the judgment of the auditor with principles based guidance in the standards to inform the auditor's judgment. We agree with the following matters to be considered by the auditors, as mentioned in paragraph 45 of the guidance, i.e.:

- Areas of significant management judgment (e.g., in relation to the entity's accounting practices, including accounting policies, accounting estimates, and financial statement disclosures);
- Significant or unusual transactions (e.g., significant related party transactions or restatements).

Question 5 - Do the illustrative examples of Auditor Commentary have the informational or decision-making value users seek? Why or why not? If not, what aspects are not valuable, or what is missing? Specifically, what are your views about including a description of audit procedures and related results in Auditor Commentary? (See paragraphs 58–61.)

As a professional institute, our members are issuers of the auditors' report and not users of the financial statements. However through informal meetings, we drew the attention of preparers of the financial statements on the ITC for them to respond directly.

Question 6 - What are the implications for the financial reporting process of including Auditor Commentary in the auditor's report, including implications for the roles of management and those charged with governance (TCWG), the timing of financial statements, and costs? (See paragraphs 38 and 62–64.)

As already mentioned in our response to question 2, we are of the view that the new requirements should improve the auditor's communication with management and those charged with governance. However, as explained previously, impediments cannot be ignored, i.e. the potential cost arising from:

- additional quality control processes within the audit firms surrounding the development and review of the Auditor Commentary paragraphs, with additional time being incurred by the most senior members of the engagement team;
- discussion of the form and content of Auditor Commentary section between auditors, management and those charged with governance, prior to issuing the auditor's report;
- a more iterative process to finalize the auditor's report, which may affect the timing of release of auditor's report.

The additional time needed to carry these tasks will have to be anticipated by the auditor.

Overall, we are of the view that the new requirements regarding the "Auditor Commentary" may improve the quality of the notes to the financial statements and such benefits could offset the costs in light of the public interest.

Question 7 - Do you agree that providing Auditor Commentary for certain audits (e.g., audits of public interest entities (PIEs)), and leaving its inclusion to the discretion of the auditor for other audits is appropriate? Why or why not? If not, what other criteria might be used for determining the audits for which Auditor Commentary should be provided? (See paragraphs 51–56.)

We agree with the ITC that the "Auditor Commentary" section should be required for at least the Public Interest Entities (PIEs), which are defined in the IESBA code as: "*all listed entities; and any entity (i) defined by regulation or legislation as a PIE; or (ii) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities*". This

is a question of having a level playing field for all major entities operating around the world. It would not be normal that the audit report of a French car manufacturer and a German car manufacturer would have, an auditor commentary section in one and not in the other.

We also consider that, in order to preserve the principle “an audit is an audit” and “an audit report is an audit report”, the audit report of non-PIEs should also have an “Auditor Commentary” section. The drafting of such auditor commentaries should nevertheless be proportionate to the nature, size and complexity of the entity. Thereby, allowing the auditor to have an extremely simple “Auditor Commentary” section in the case of a SME with no specific difficulties or a more elaborate “Audit Commentary” section in the case of a SME with complex activities.

Going Concern/ Other Information

Question 8 - What are your views on the value and impediments of the suggested auditor statements related to going concern, which address the appropriateness of management’s use of the going concern assumption and whether material uncertainties have been identified? Do you believe these statements provide useful information and are appropriate? Why or why not? (See paragraphs 24–34).

We support improved auditor communication in line with users’ needs. Additional information in the auditor’s report regarding the appropriateness of management’s use of the going concern assumption seems strategically important to respond, at least in part, to expectations arising from the financial and economic crisis.

We consider that the inclusion of two explicit conclusions on going concern in the auditor’s report (i.e. appropriateness of management’s use of the going concern assumption to prepare the financial statement and whether material uncertainties in relation to going concern have been identified) is, together with the “Auditor Commentary”, the most important changes of the new auditor’s report. Moreover, these conclusions are directly linked with the work performed in accordance with ISA 570 - Going concern.

However, we consider that the implementation of such requirements is dependent upon the two following conditions:

- 1) clarification being made to the financial reporting standards (international and national) on the concepts of going concern and material uncertainties;
- 2) explanations being provided by management in the notes to the financial statements to support:
 - the use of the going concern assumption to prepare the financial statements and
 - the absence of material uncertainties related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern.

Condition 1 – Clarification in the financial reporting standards of the concepts linked with the going concern

The International Financial Reporting Standards (IFRS) requires management to make an assessment of an entity's ability to continue as a going concern:

“When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. ...” (IAS 1).

We believe that the following concepts should be further clarified in the IFRS and, if necessary, adjusted or amended in the national standards to be harmonized with the IFRS:

- The period of time on which the entity has to assess its ability to continue as a going concern. This may differ from one framework to another one (IFRS versus local gaaps);
- The “material uncertainties”. As of today, IFRS is to our knowledge the only framework that uses the concept of “material uncertainties”, but still remaining imprecise on this concept;
- The “significant doubt”. This concept is not defined in the IFRS;
- The information to disclose in case of uncertainties on the ability to continue as a going concern. As at today, not all accounting and financial reporting standards are explicit in relation to requiring entities to disclose matters in relation to going concern issues and related material uncertainties. In addition, it would be useful to develop guidance to deal with uncertainties which are not yet material but would need to be disclosed by management for the proper information for users. For examples significant assumptions that support the entity's ability to continue as a going concern.

Therefore, we encourage the IAASB to initiate discussions with the International Standards Board (IASB) in order to coordinate such financial reporting enhancements.

Condition 2 – Explanation provided by management in the notes to the financial statements on the going concern issue

We consider that the primary responsibility to provide information about an entity use of the going concern assumption belongs to its management and not to the auditor. The auditor cannot be an information provider in this respect, especially as such information concerns strategic aspects of the entity that are only known by the management.

This is why the auditor's ability to explicitly conclude on:

- the appropriateness of management's use of going concern assumption;
- the absence of material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;

is dependent on the disclosures by management in the notes to the financial statements of the reasons for the use of going concern assumption and the absence of material uncertainties.

However, in certain cases which are “borderline”, we could well understand that management may not want to disclose to the public detailed information on the way it intends to tackle entity’s difficulties (e.g. disposal of assets, refinancing, renegotiation of covenants, etc...). In these cases, management could understandably prefer to discuss the matters directly with the statutory auditor without disclosing the various scenarios that could create a panic on the market and provoke the immediate failure of the business. In this case, the auditor may be convinced that the plans of management will work but may also find it difficult to explicitly state that he has identified no material uncertainties.

In France, when the statutory auditor has identified uncertainties related to events or conditions that may cast doubt upon the entity’s ability to continue as a going concern, he has to launch a procedure, called the “procedure d’alerte”, that consists, in the first stage, of discussing the issue with the management in order to obtain explanations on the situation and to understand plans made and strategy established by management to cope with the situation. Such procedure remains confidential in its first stages and becomes public only when the explanations and the actions of management are not convincing or the situation gets worse.

In addition to the discussion above about the need to clarify the concept of going concern and material uncertainties in the financial reporting framework and the explanation to be provided by management in the notes to the financial statements, we consider that the IAASB should:

- better explain how to operationalize the going concern section in the auditor’s report in the “borderline” cases discussed above, especially regarding the absence of material uncertainties that should have been disclosed;
- clarify the structure of the auditor’s report regarding the going concern issue. As a matter of fact, this issue is treated in two different places of the auditor’s report; firstly, in the section called “Going concern” and secondly under the “Respective responsibilities of management and the auditor”. This split may be confusing. We believe that all going concern paragraphs should be addressed in a sole section that would first define the “rules of the game”, i.e. the management’s responsibility with respect to going concern and, then, detail the conclusions of the auditor on the going concern issue.

Moreover, it is difficult to see how the report would work in case of qualification or disclaimer of opinion due to a going concern issue or in the case where management has prepared the company’s financial statements on a liquidation or break-up basis.

Question 9 - What are your views on the value and impediments of including additional information in the auditor’s report about the auditor’s judgments and processes to support the auditor’s statement that no material uncertainties have been identified? (See paragraphs 30–31.)

Although the solution of including additional information in the auditors’ report about the auditor’s judgments and processes to support the auditor’s statement may appear attractive, especially in “borderline” cases, as discussed above; it may well result in disclosing information that the entity does not want to disclose because such disclosure could lead to immediate failure of the business. It is difficult to imagine how to operate such system in the banking or insurance sectors for example.

Question 10 - What are your views on the value and impediments of the suggested auditor statement in relation to other information? (See paragraphs 65–71.)

We fully support the suggested auditor statement in relation to other information.

Clarification and Transparency

Question 11 - Do you believe the enhanced descriptions of the responsibilities of management, TCWG, and the auditor in the illustrative auditor’s report are helpful to users’ understanding of the nature and scope of an audit? Why or why not? Do you have suggestions for other improvements to the description of the auditor’s responsibilities? (See paragraphs 81–86.)

We agree that the new descriptions of the responsibilities of management, TCWG, and the auditor in the illustrative auditor’s report is an enhancement compared to the previous wording and are helpful to users’ understanding of the nature and scope of an audit. We consider that these descriptions better explain and clarify, on the one hand the responsibilities of management and TCWG, and on the other hand the responsibilities of the auditor.

We do not have any other suggestions for further improvements to the description of the auditor’s responsibilities.

Question 12 - What are your views on the value and impediments of disclosing the name of the engagement partner? (See paragraphs 72–73.)

We have not identified any impediments against disclosing the name of the engagement partner in the auditor’s report. This is already required in the European Union (EU) following the European Commission Statutory Audit Directive of 2006 (2006/43/EC)².

Question 13 - What are your views on the value and impediments of the suggested disclosure regarding the involvement of other auditors? Do you believe that such a disclosure should be included in all relevant circumstances, or left to the auditor’s judgment as part of Auditor Commentary? (See paragraphs 77–80.)

We have already expressed above our strong opposition to such “Auditor Commentary” which is not useful to users, inconsistent with ISA 600 and blurs the full responsibility of the auditor for its opinion on the consolidated financial statements.

² **DIRECTIVE 2006/43/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 May 2006**
- Article 28: **Audit reporting** 1. Where an audit firm carries out the statutory audit, the audit report shall be signed by at least the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm. In exceptional circumstances Member States may provide that this signature need not be disclosed to the public if such disclosure could lead to an imminent and significant threat to the personal security of any person. In any case the name(s) of the person(s) involved shall be known to the relevant competent authorities.

Question 14 - What are your views on explicitly allowing the standardized material describing the auditor’s responsibilities to be relocated to a website of the appropriate authority, or to an appendix to the auditor’s report? (See paragraphs 83–84.)

We do not support this proposal. We consider that such standardized material would never be read if relocated to a website or to an appendix to the auditor’s report.

Form and Structure

Question 15 - What are your views on whether the IAASB’s suggested structure of the illustrative report, including placement of the auditor’s opinion and the Auditor Commentary section towards the beginning of the report, gives appropriate emphasis to matters of most importance to users? (See paragraphs 17–20.)

We support the suggested structure including placement of the auditor’s opinion and the “Auditor Commentary” section. However, as mentioned in question 8, we consider that the going concern issue should be treated in a one section of the auditor’s report. We recommend the IAASB review the structure of the illustrative report to address this point.

Question 16 - What are your views regarding the need for global consistency in auditors’ reports when ISAs, or national auditing standards that incorporate or are otherwise based on ISAs, are used? (See paragraphs 21–23 and 87–90.)

We are of the view that consistency and comparability of auditor’s reports promote credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized auditing standards. Consistency facilitates users’ understanding of auditors’ reports, and their ability to identify unusual circumstances when they occur.

We support the “building blocks” approach proposed by the IAASB. We believe that such an approach helps to achieve comparable auditor’s reports while still allowing jurisdictions the ability to further tailor auditor reporting requirements in the context of national environments. We consider that such flexibility is needed but should not be to the detriment of consistency in the auditors’ reports, especially in the auditor commentary section and the going concern section where a level playing field is needed.

Question 17 - What are your views as to whether the IAASB should mandate the ordering of items in a manner similar to that shown in the illustrative report, unless law or regulation require otherwise? Would this provide sufficient flexibility to accommodate national reporting requirements or practices? (See paragraph 17 and Appendix 4.)

In line with our response to question 16 on having a similar structure for all auditors' reports, we support standardization of the order in the auditor's report at a global level. We believe this would help to navigate through the auditor's report and to allow a better comparison between auditor's reports.

Question 18 - In your view, are the IAASB's suggested improvements appropriate for entities of all sizes and in both the public and private sectors? What considerations specific to audits of small- and medium-sized entities (SMEs) and public sector entities should the IAASB further take into account in approaching its standard-setting proposals? (See paragraphs 91–95.)

See our response on question 7.

Appendix – Illustration of “Auditors Commentary” – Justification of assessment

Illustration 1: Car manufacturer – Consolidated financial statements

In accordance with the requirements of article L. 823-9 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the following matters:

- For the purpose of preparing the consolidated financial statements, XX group makes certain estimates and assumptions concerning, in particular, the value of certain asset, liability, income and expense accounts, the main items of which are summarized in not xx to the consolidated financial statements. For all these items, we assessed the appropriateness of the accounting rules and methods applied and disclosures provided in the notes to the financial statements. We also reviewed the consistency of the underlying assumptions, the quantified impact thereof and the available documentation and assessed on this basis the reasonableness of estimates made;
- As disclosed in note XX to the consolidated financial statements, the group accounts for its investments in XX by the equity method; our audit of the scope of consolidation included a review of the factual and legal aspects of the alliance which serve as the underlying basis for this accounting policy;
- As part of our assessment of the accounting policies applied by the group, we have reviewed the methodology adopted for the capitalization of development costs as intangible assets, their amortization and the verification of their recoverable amount and we verified that these methods were properly disclosed in notes XX;
- As disclosed in notes XX to the consolidated financial statements, the group has recognized part of the net deferred tax assets of French tax group; we have reviewed the consistency of the underlying assumptions for the forecasted taxable incomes and associated consumptions of losses carried forward, the quantified impact thereof and the available documentation and assessed on this basis the reasonableness of estimates made.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

Illustration 2 – Bank – Consolidated financial statements

In accordance with the requirements of article L. 823-9 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the following matters:

- Impairment provisions for credit and counterparty risk

XX records impairment provisions to cover the credit and counterparty risk inherent to its business as described in notes XX to the consolidated financial statements. We examined the control procedures applicable to identifying exposures, monitoring credit and counterparty risk, impairment testing methods and determining individual and portfolio-based impairment losses, notably regarding Greek sovereign risk.

- Measurement of financial instruments

XX uses internal models and methodologies to value its positions on financial instruments which are not traded on active markets, as well as to determine certain provisions and assess whether hedging designations are appropriate. We examined the control procedures applicable to the identification of inactive markets, the conditions for reclassifying financial instruments, the verification of these models and the determination of the inputs used.

- Impairment of available-for-sale assets

XX recognises impairment losses on available-for-sale assets where there is objective evidence of a prolonged or significant decline in value, as described in notes XX to the consolidated financial statements. We examined the control procedures relating to the identification of such evidence, the valuations of the most significant captions, and the estimates used, where applicable, to record impairment losses.

- Impairment related to goodwill

XX carried out impairment tests on goodwill which led to the recording of impairment losses in 2011, as described in notes XX to the consolidated financial statements. We examined the methods used to implement these tests as well as the main assumptions, inputs and estimates used, where applicable, to record impairment losses.

- Deferred tax assets

XX recognised deferred tax assets during the year, notably in respect of tax loss carryforwards, as described in notes xx to the consolidated financial statements. We examined the main estimates and assumptions used to record those deferred tax assets.

- Provisions for employee benefits

XX raises provisions to cover its employee benefit obligations, as described in notes xx to the consolidated financial statements. We examined the method adopted to measure these obligations, as well as the main assumptions and inputs used.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

Illustration 3 – Other Bank – Individual Financial statements of Parent company

The accounting estimates reflected in the financial statements as at December 31, 2011 were made in a context of uncertainty arising as a result of the sovereign debt crisis of some eurozone countries (most notably Greece) combined with an economic and a liquidity crisis, resulting in a lack of visibility on economic prospects. In that context and in accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de Commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- Accounting estimates
 - As stated in Notes XX to the financial statements, your Company is exposed to the economic crisis in Greece primarily through its subsidiary XX. Based on the information available to date, we have reviewed the processes implemented by management to assess the related risks and assessed the appropriateness of the related accounting estimates as well as the disclosures included in the financial statements.
 - As part of its process of preparation of the financial statements, your Company has made accounting estimates, in particular regarding the valuation of investments in non-consolidated companies and participating interests, loans and advances granted, other long-term investments and the pension and future employees' benefits provisions. We have reviewed the assumptions used and verified that these accounting estimates are based on documented methods that comply with the principles set forth in Note XX to the financial statements.

These assessments were made as part of our audit of the parent company's financial statements, taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.