

Mr. James GUNN
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IAASB
545 Fifth Avenue, 14th Floor
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USA

21 November 2013

Re: IAASB Exposure Draft (ED) 'Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)'

Dear Mr. Gunn,

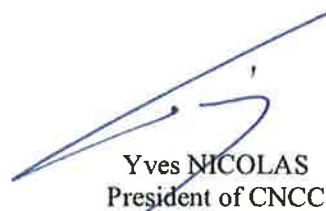
The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) are pleased to provide you with their comments on the Exposure Draft (ED) 'Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)'. We welcome the ED and most of the proposals included therein.

We believe, however, that our comments which follow would further enhance the proposals. This letter also includes our responses to the questions set out in the proposed document.

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

Yours faithfully,


Joseph ZORNIOTTI
President of CSOEC


Yves NICOLAS
President of CNCC

Envoyer obligatoirement toute correspondance aux deux adresses ci-dessous :

Executive summary

The French institutes clearly support the IAASB proposals to reform the auditor's report. We believe that the introduction of Key Audit Matters (KAM) in the auditor's report will increase its communicative and informative value to users and will enhance the two-way communication between the auditor and those charged with governance. We also believe that it can indirectly have a virtuous effect on the quality of the financial statements through improved disclosures.

We already have in France a very similar mechanism, called "justification of assessments" which was introduced in the auditor's report by the 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.

As mentioned in our previous letter, dated 15 October 2012, we also understand the need for improved auditor communication in line with users' needs on the going concern in order to respond to expectations arising from the financial and economic crisis. We therefore support the intention of the IAASB in connection with the proposals of the European Union.

We nevertheless have concerns about the proposals regarding the going concern (see our response to question 9) and fear that such proposals may ultimately increase the expectation gap.

We therefore consider that two preconditions need to be filled prior to including such paragraphs in the auditor's report:

- the concepts of going concern and material uncertainties need to be clarified by the financial reporting standard setters and
- appropriate explanations need to be 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.

In addition, we consider the IAASB proposals, especially those related to the second paragraph on the absence of material uncertainties not to be "fit for purpose" in the "borderline cases" where entities are facing uncertainties which are not yet judged as material, since the entities still have plans to tackle their difficulties and justify their ability to continue as a going concern, but are nevertheless dependent on the realisation of critical assumptions. In such a case, a solution whereby management would describe in the notes to the financial statements the critical assumptions that condition the entity's ability to continue as a going concern and the auditor would point to that information through an emphasis of matter paragraph would be more suited and more informative for the reader.

We also urge the IAASB to continue liaising with both the European Union (EU) and the PCAOB on the issue of the auditors' report where convergence is crucial.

As a conclusion, we would like to reaffirm our clear support to the IAASB's proposals to enhance the value of the auditors' report. However, we believe that the reform of the auditors' report is just one element of response to the questions raised by the European Commission when launching its Green Paper on an enhanced role of the auditor for the future. Of course, enhancing the future role of the auditor is not completely within the remit of the IAASB, but it can be facilitated by the actions the IAASB will develop to enhance the role, the relevance and the quality of assurance and related services provided by the auditors. This is why we consider that the 2015-2019 IAASB strategy is crucial and necessary to propose

new and innovative assurance and related services to better meet users' needs who are calling for more pertinent information for their decision-making in today's global business environment with increasingly complex financial reporting requirements. We believe that short-term areas of strategic focus would be around assurance on certain key indicators (including non-financial indicators) outside of the financial statements, information issued in advance of the financial statements which may influence the market (e.g. preliminary announcements) and possible communication of those charged with governance to the public.

The reform of the auditor's report is a great step forward that will contribute to the reduction of the information gap to the public and to the improvement of the two-way communication with both management and those charged with governance (TCWG). The IAASB has really moved the lines in the right direction with such proposals, but the future enhanced role of the auditor in the 21st century remains to be completed.

Key Audit Matters

Question 1. Do users of the audited financial statements believe that the introduction of a new section in the auditor’s report describing the matters the auditor determined to be of most significance in the audit will enhance the usefulness of the auditor’s report? If not, why?

Yes, we strongly support the introduction of a new section in the auditor’s report describing the matters the auditor determined to be of most significance in the audit and we believe that it will enhance the value and usefulness of the auditor’s report.

We already have in France a very similar mechanism, called “justification of assessments” which was introduced in the auditor’s report by the 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 useful¹

However, the mechanism of “justification of assessments” applies to audits of all entities (i.e. listed and non-listed entities). This is not the case of the proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s report* which limits the communication of the key audit matters in auditor’s reports to the audits of financial statements of listed entities. We consider that the section in the auditor’s report should be required for all entities to preserve the principle that “an audit is an audit” and “an audit report is an audit report”. We accordingly suggest that the new mechanism be progressively applicable from listed entities to PIEs and ultimately to all entities.

Moreover, the IAASB’s proposal to amend ISA 260- *Communication with Those Charged with Governance* in light of proposed ISA 701 to include communication about the significant risks identified by the auditor is not proportionate, since ISA 260 applies irrespective of the type of entities, i.e. listed and non-listed entities.

Question 2. Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide an appropriate framework to guide the auditor’s judgment in determining the key audit matters? If not, why? Do respondents believe the application of proposed ISA 701 will result in reasonably consistent auditor judgments about what matters are determined to be the key audit matters? If not, why?

We consider that the proposed requirements and related application material in proposed ISA 701 provides an appropriate framework to guide the auditor’s judgment in determining the KAM.

Based on our practical experience in France, the auditors will learn from experience in the first years of the implementation of the new mechanism and upon time the auditor’s reports will become increasingly homogeneous.

In this context, we recommend that the IAASB carries an appropriate communication plan to explain the “why” and “how” of the new mechanism.

¹ Study independently conduct by FootprintConsultant (P. Manière) with a view to examine the perception of the statutory auditor's “justification of assessments” by users of the auditor's report : http://www.cncc.fr/download/footprintconsultant_reportstudy_va_cncc_fev2011.pdf

In addition, as highlighted by the ISA implementation monitoring exercise, it may be useful that the IAASB clarifies or provides additional guidance around the concept of the “significant risk” in ISA 315, because of the link with the Key Audit Matters (KAM).

Question 3. Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide sufficient direction to enable the auditor to appropriately consider what should be included in the descriptions of individual key audit matters to be communicated in the auditor’s report? If not, why?

We consider that ISA 701 provides too much flexibility as to what should be included in the descriptions of the individual Key Audit Matters.

The 4 examples given in the KAM section demonstrate the excessive flexibility offered by the standard which results in the KAMs not being consistently structured. We have listed hereafter the differences we have identified:

	Overview of the audit procedures performed	indication of outcome of the auditor’s procedures
Goodwill	Yes	No
Valuation of Financial Instruments	Yes	<ul style="list-style-type: none"> – Partial : only on the appropriateness of the model used – No indication of the outcome on the valuation of the financial instruments
Acquisition of XYZ Business	No	No
Revenue recognition relating to Long-Term Contracts	Yes	Yes explicit statement on the absence of evidence of side agreements

We consider that a complete lack of information on the audit procedures performed and the conclusion reached may create anxiety for the users of the auditor’s report who may not understand whether the matter has been resolved to the auditor’s satisfaction. In this context, we consider that the IAASB should mandate a developed content and structure of the KAM i.e. specify that the description of each KAM should include the following information:

- the reason for the selection of a matter as a KAM;
- a brief overview of procedures performed or the auditor’s approach to the matter and;
- an indication of the outcome of the auditor’s procedures with respect to the matter
- a clear reference to the related disclosure in the financial statements (the auditor should not be the original source of information about the entity).

We are convinced that these improvements of the auditor’s report should enhance the quality of dialogue between the audit committee and the statutory auditors. Prior to issuing his report, the auditor will discuss with those charged with governance the content of the report, especially the KAM section. This should further promote an effective two-way communication between those charged with governance 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.

Question 4. Which of the illustrative examples of key audit matters, or features of them, did respondents find most useful or informative, and why? Which examples, or features of them, were seen as less useful or lacking in informational value, and why? Respondents are invited to provide any additional feedback on the usefulness of the individual examples of key audit matters, including areas for improvement.

The examples provided are different in nature and relevance. Our comments on the proposed examples are:

– Goodwill

This example will add value to users if it includes an indication of the outcome of the auditor's procedures. Even if some may believe that a goodwill example may become boilerplate overtime, it should be acknowledged that goodwill will often be a KAM based on the criteria described in paragraph 8 of ISA 701. This example is therefore useful.

– Valuation of Financial Instruments

This example is also very useful. It is well structured since it includes a description of the audit procedures performed and of the outcome of such procedures. However, our main concern is indeed around the outcome of the auditor's procedures which only deals with the appropriateness of the model used and not with the inputs and assumptions retained by management that lead to the overall valuation of the Financial Instruments. Moreover, we recommend using the verb "consider" to describe the outcome of the procedures performed rather than "conclude" to avoid the impression of a "piecemeal" opinion on this matter.

– Acquisition of XYZ Business

We consider this example to be relatively weak and not adding much value to users since it simply points to the information in the notes to the financial statements like an emphasis of matter paragraph. There is neither description nor indication of the outcome of the audit procedures performed. In addition we believe that this matter should not be a KAM, based on paragraph 8 of ISA 701, It should be at best treated as an Emphasis of Matter Paragraph. It is finally difficult to judge the informative value of that KAM, not knowing what is written in the related note to the financial statement.

– Revenue Recognition relating to Long-Term Contracts

We have a real concern about this example, especially with the direct link done between the long-term contracts and the possibility of side agreements and, therefore, the risk of material misstatement due to fraud. This example could create a high degree of uncertainty among users of the financial statement and of the auditor's report thereon. Such KAM could also generate misunderstanding among auditors, i.e. this example could be interpreted as being compulsory for all long-term contracts.

Finally, we believe that the reference to the risk of fraud needs to be treated cautiously. The message that long-term contracts entail a risk of fraud because of the possibility of side agreements while concluding at the end of the day that the auditor did not find anything is not the right message. Certain entities could consider that such a statement, with no factual basis, could cast a doubt on the integrity of their management and have negative effects on their reputation with potential negative consequences on the market or for example in case of invitation to tenders.

We therefore do not support keeping this example as presently drafted in the final standard.

Despite our concerns on some examples, we strongly support the inclusion of examples in the final standard to help the auditors implement KAM in their reports.

Question 5. Do respondents agree with the approach the IAASB has taken in relation to key audit matters for entities for which the auditor is not required to provide such communication – that is, key audit matters may be communicated on a voluntary basis but, if so, proposed ISA 701 must be followed and the auditor must signal this intent in the audit engagement letter? If not, why? Are there other practical considerations that may affect the auditor’s ability to decide to communicate key audit matters when not otherwise required to do so that should be acknowledged by the IAASB in the proposed standards?

We support the approach of the IAASB that request to apply the entire standard ISA 701 when key audit matters are applied on a voluntary basis. In addition, once such an option has been taken, we consider that it needs to be applied consistently from one year to another.

In this context, it would be much clearer if the law or regulation in a given country would require (or not) the application of KAM to categories of entities since it would at least provide, at national level, a level playing field.

In addition, as mentioned in, our response to question 1, we support the progressive application of the KAM to all entities.

Question 6. Do respondents believe it is appropriate for proposed ISA 701 to allow for the possibility that the auditor may determine that there are no key audit matters to communicate?

Yes, we agree it is appropriate to include the possibility that the auditor may determine that there are no key audit matters to communicate. Nevertheless, we consider this should be applicable in rare cases only. The auditor’s report of an empty shell, for example, would benefit from being exempted from KAM which would not in any case add value to the users.

(a) If so, do respondents agree with the proposed requirements addressing such circumstances?

Yes we agree that the requirements of paragraph 13 and the corresponding application material paragraphs are necessary to ensure an appropriate process and communication where the expectation of users for disclosures of KAM is not met.

(b) If not, do respondents believe that auditors would be required to always communicate at least one key audit matter, or are there other actions that could be taken to ensure users of the financial statements are aware of the auditor’s responsibilities under proposed ISA 701 and the determination, in the auditor’s professional judgment, that there are no key audit matters to communicate?

Not applicable.

Question 7. Do respondents agree that, when comparative financial information is presented, the auditor’s communication of key audit matters should be limited to the audit of the most recent financial period in light of the practical challenges explained in paragraph 65? If not, how do respondents suggest these issues could be effectively addressed?

Yes, we agree that when comparative financial information is presented, the auditor’s communication of KAM should be limited to the audit of the most recent financial period. We believe that a communication of the key audit matters for the comparative financial period would be highly confusing.

Question 8. Do respondents agree with the IAASB's decision to retain the concepts of Emphasis of Matter paragraphs and Other Matter paragraphs, even when the auditor is required to communicate key audit matters, and how such concepts have been differentiated in the Proposed ISAs? If not, why?

We agree with the IAASB's decision to retain the concepts of Emphasis of Matter (EOM) paragraphs and Other Matter Paragraphs for the following reasons:

- not all entities are listed;
- in certain jurisdictions, Emphasis of Matter Paragraphs may be compulsory in certain cases. For example, in France this is the case for the changes in accounting policies;
- certain subjects cannot be treated as KAM, for example, subsequent events.

Going Concern

Question 9. Do respondents agree with the statements included in the illustrative auditor's reports relating to:

- (a) The appropriateness of management's use of the going concern basis of accounting in the preparation of the entity's financial statements?**
- (b) Whether the auditor has identified a material uncertainty that may cast significant doubt on the entity's ability to concern, including when such an uncertainty has been identified (see the Appendix of proposed ISA 570 (Revised))? In this regard, the IAASB is particularly interested in views as to whether such reporting, and the potential implications thereof, will be misunderstood or misinterpreted by users of the financial statements.**

As mentioned in our previous letter, dated 15 October 2012, we support improved auditor communication in line with users' needs on the going concern to respond to expectations arising from the financial and economic crisis. We therefore support the intention of the IAASB in connection with the proposals of the EU.

The IAASB, consistent with the requirements of ISA 570 and of the IFRS, has built a proposal by which the auditor would report:

- first on the appropriateness of management's use of the going concern assumption and
- second on the absence of material uncertainties that may cast significant doubt on the entity's ability to continue as a going concern.

We have no major difficulty with the first paragraph on the appropriateness of management use of the going concern assumption. However, we are concerned about the second paragraph for the following reasons.

We fear that such assertion may ultimately increase the expectation gap. The combination of the two paragraphs may create the perception for users who would not be completely aware of the professional jargon, of an absolute safety: not only the auditor agrees with the use of the going concern assumption but in addition, he did not identify any material uncertainty that may cast significant doubt on the ability of the entity to continue as a going concern.

We therefore consider that two preconditions need to be filled prior to including such paragraphs in the auditor's report:

- the concepts of going concern and material uncertainties needs to be clarified by the financial reporting standard setters and
- appropriate explanations need to be 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.

In addition, we consider the IAASB proposals, especially those related to the second paragraph on the absence of material uncertainties not to be completely "fit for purpose" in the "borderline cases" where entities are facing uncertainties which are not yet judged as material since the entities still have plans to tackle their difficulties and justify their ability to continue as a going concern.

Such paragraphs on the going concern may also be somewhat misleading in the case of financial institution where liquidity problems may cause sudden death without much possibility to anticipate or to prevent it. Who could have said in advance of the 2008 crisis that the banks would suddenly cease to lend to one another?

1) Expectation gap

As mentioned above, we consider that the going concern paragraphs may increase the expectation gap by creating an undue perception of absolute guarantee of the viability of the entity.

As a quick and easy fix, for transparency reasons, we first recommend the inclusion in the going concern's paragraphs of the horizon (12 months from the closing date or other ...) upon which the going concern is assessed.

In the specific case of the second paragraph on the absence of material uncertainties, the paragraph as disclosed in the illustrative report may confuse the readers rather than inform them, for the following reasons:

- the sentences contradict each other (there is no material uncertainty in relation to the going concern but there is no guarantee the group's ability to continue as a going concern)
- the verb "guarantee" is too open for interpretation.

Mentioning the auditor in the last sentence may create the impression that the auditor has a responsibility on the entity's ability to continue as a going concern when it is the management (and not the auditor) who is responsible for the entity's ability to continue as a going concern and for the financial statements.

In this context, we recommend to move the last sentence of the going section "*However neither management nor the auditor can guarantee the Group's ability to continue as a going concern*", amended as necessary, at the top of the section. We suggest that the sentence be redrafted in order to properly state the respective responsibilities of management and the auditor (see our point above). To convey the idea that "nobody can guarantee the Group's ability to continue as a going concern", the IAASB could draw its inspiration from the report on the prospective financial information, i.e. from paragraph 27 (m) of ISAE 3400 – *The examination of prospective financial information* that states "*Such a report would state that (...) actual results are likely to be different from the prospective financial information since anticipated events frequently do not occur as expected and the variation could be material*".

2) Two necessary Preconditions

As mentioned in our previous letter, dated 15 October 2012, we consider that the mentioning of two explicit conclusions on going concern in the auditor's report (i.e. appropriateness of management's use of going concern assumption to prepare the financial statements and whether material uncertainties in relation to going concern have been identified) is dependent upon the resolution of the two **following preconditions**:

- **Precondition 1**: clarification being made to the financial reporting standards (international and national) on the concepts of going concern and material uncertainties, otherwise there will be no homogeneous treatment for similar situations;
- **Precondition 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.

Precondition 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 of users. For examples significant assumptions that support the entity's ability to continue as a going concern.

Therefore, we encourage the IAASB to continue its discussions with the International Standards Board (IASB) in order to coordinate such financial reporting enhancements which are a precondition to the possible insertion of the paragraphs on going concern in the auditor's report.

In addition, adapting or transposing the going concern requirement in national standard, when the national accounting standards do not define “going concern” or “material uncertainties” will be very challenging. It should be noted that the new Financial Statement Directive, for example, uses the concept of going

concern but does not define it. Therefore, even if the clarification of going concern and material uncertainties is done at the IAASB level, it will not solve all difficulties at national level.

Precondition 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's 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 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.

3) "Borderline cases"

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" where the entity's going concern is subject to uncertainties which are not yet judged as material because the entity has plans to tackle its difficulties and to justify their ability to continue as a going concern. In such cases, a solution whereby management would describe in the notes to the financial statements the critical assumptions that condition the entity's ability to continue as a going concern and the auditor would point to that information through an emphasis of matter paragraph would be more suited and more informative for the reader.

We consider that in these cases, the IAASB should clearly detail what the auditor has to do in his report, i.e.: explicit if the auditor has (or not) to:

- confirm there is no material uncertainties in the going concern section and
- include an Emphasis of Matter paragraph that will refer to the detailed information in the disclosure on the way the management intends to tackle entity's difficulties (e.g. disposal of assets, refinancing, renegotiation of covenants, etc...).

Overall, we believe that the IAASB should explore the path of having a going concern section which is scalable to the possible situations if we want to better inform the users. This is why we would propose to differentiate three cases in relation to going concern reporting:

- No going concern issue: only brief disclosures that will for instance include the sentence reported in paragraph 20(b) of ISA 570 (i.e., not including further mention of material uncertainties);
- Potential going concern issue: more extensive disclosures that will for instance include more details about the work carried out by the auditor in this regard and the conclusion that "the auditor has not identified a material uncertainty that may cast [...]" (paragraph 20 (c));
- Clear going concern issue: significantly more details to be provided, with a clear reference to the management disclosure in the financial statements.

Whatever the solution will be, it is important that all information regarding going concern be gathered in the going concern section and not scattered all around the different sections of the report.

4) Banking sector

We also believe that the IAASB should consider the specific characteristics of the Banking sector.

As a matter of fact, 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 sector for example, where a lack of confidence of the investors could generate a problem of liquidity and cause the sudden "death" of the bank if not supported by the State. Indeed, the triggers of the going concern are different in the Banking sector and may be difficult to anticipate. Who could have said in advance of the 2008 crisis that the banks would suddenly cease to lend to one another?

5) Qualification or disclaimer opinion

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 10. What are respondents' views as to whether an explicit statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern should be required in the auditor's report whether or not a material uncertainty has been identified?

See our response above.

Compliance with Independence and Other Relevant Ethical Requirements

Question 11. What are respondents' views as to the benefits and practical implications of the proposed requirement to disclose the source(s) of independence and other relevant ethical requirements in the auditor's report?

Yes, we agree that such disclosure would increase transparency. Nevertheless, we are not convinced about the usefulness for decision-making purposes of such disclosures and are especially concerned about the risk of having extensive paragraphs disclosing the source(s) of independence and other relevant ethical requirements in the auditor's report.

We believe that this descriptive paragraph of the auditor's report should be brief and non-ambiguous. We also consider that the IAASB should be more explicit with regard to the level of details required to ensure we will avoid lengthy list of ethical requirements or applicable law or regulation.

Disclosure of the Name of the Engagement Partner

Question 12. What are respondents' views as to the proposal to require disclosure of the name of the engagement partner for audits of financial statements of listed entities and include a "harm's way exemption"? What difficulties, if any, may arise at the national level as a result of this requirement?

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

We support the "harm's way exemption" included in the ED. There is an expectation that the use of such exemption would be rare. Nevertheless, it is necessary and in accordance with the public interest.

Other Improvements to Proposed ISA 700 (Revised)

Question 13. What are respondents' views as to the appropriateness of the changes to ISA 700 described in paragraph 102 and how the proposed requirements have been articulated?

We agree with the changes of ISA 700 described in paragraph 102.

But we do not support the proposal that consist in allowing the standardized material describing the auditors' responsibilities to be relocated to a website of the appropriate authority or to an appendix to the auditor's report. As a matter of fact, we consider that such standardized material would never be read if relocated to a website or to an appendix to the auditor's report.

Question 14. What are respondents' views on the proposal not to mandate the ordering of sections of the auditor's report in any way, even when law, regulation or national auditing standards do not require a specific order? Do respondents believe the level of prescription within proposed ISA 700 (Revised) (both within the requirements in paragraphs 20–45 and the circumstances addressed in paragraphs 46–48 of the proposed ISA) reflects an appropriate balance between consistency in auditor reporting globally when reference is made to the ISAs in the auditor's report, and the need for flexibility to accommodate national reporting circumstances?

As a matter of principle, we support the "global standardization" of the auditor's report, including the ordering of the paragraphs. 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.

However, being pragmatic, we also support the proposal "building blocks" approach proposed by the IAASB. We believe that such an approach may help achieve comparable auditor's reports while still allowing jurisdictions the ability to further tailor auditor reporting requirements in the context of national environments. We understand that such flexibility may be needed to accommodate national and cultural differences.