

Paris La Defense, November 22, 2012

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

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

Dear Mr. Gunn, dear Sirs,

MAZARS is pleased to submit this letter in response to the request for comments from the IFAC International Auditing and Assurance Standards Board (IAASB), on its Exposure Draft "Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing".

MAZARS is a unique integrated partnership with a global reach. It operates as one integrated international partnership in 72 countries as of 1<sup>st</sup> January 2013, with more than 13.500 professionals, led by more than 750 partners (see MAZARS annual reports published since 2005, together with its IFRS joint-audited consolidated financial statements, 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.

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*

### **Overall comment**

MAZARS fully supports this future standard and considers that it will be a key step forward, especially if:

- The application is facilitated: we suggest that the IAASB provides the auditors with additional relevant examples, and in addition training material, as it was done during the clarified ISAs implementation period, to highlight the key requirements ;
- The international roll-out of this standard is monitored by IFAC and a dedicated IAASB taskforce: such an implementation taskforce should be helpful to:
  - o get feedbacks from the different stakeholders;
  - o look at the effective transposition/implementation in the professional standards in each jurisdiction;
- This standard should be a first piece of a series of other proposals, to take into account the needs to keep the profession attractive and to enhance the public interest role of the auditor in other fields, such as:
  - o giving assurance on other information than those of the financial statements, such as non-financial indicators, thus demonstrating the capacity of innovation in the profession;
  - o developing additional standards on the communication with those charged with governance and the shareholders, in order to reduce the expectation gap still existing.
- There is some form of convergence between the proposals of the IFAC IAASB, the European Union (EU) and the PCAOB, on this issue of the auditors' report, in order to achieve the objective of a full common set of auditing standards.

**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 think that the new section will be helpful in order to:

- reduce the information gap;
- make the auditors' report more valuable;
- enhance the two-way communication between the those charged with governance and the auditor.

Of course, we consider that time will be needed to obtain a consistent application in all countries.

We have experienced a very similar standard in France since 2003, applicable for all entities, and the equivalent of the Key Audit Matters (KAM) is being used and useful. If time was needed in France to implement it, we believe that the learning curve has been shortened thanks to the joint-audit, compulsory on consolidated accounts, which led to enhanced discussion and convergence on the KAM. After the first two years, the examples of KAM and on how to draft the statements on KAM, provided by the Institute (CNCC), were also useful for the whole profession, to help convergence.

**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 believe it is appropriate. However, we think that the application material could be enhanced with:

- some examples provided in the exposure draft;
- some examples on non-financial areas such as connection with some components of the internal control of the entity for which the auditor has provided an overall response;
- more guidance and examples to make the link between the Key Audit Matters and the Emphasis On Matters paragraph. As an example, what if there is an important acquisition near the year-end, with no impact on the financial statements yet and all information regarding the purchase price allocation is disclosed?

**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 appreciate the fact of giving examples even if:

- they are very different from one to another;
- they are always connected directly with the financial statements. It could be interesting to have one example of a KAM on non-direct financial elements, such as internal control (see above question 2).

We think that it would be also helpful to have consistency between the examples. This could be achieved more easily if ISA 701 provides the auditor with a typical structure, such as:

- the nature and the reason of the KAM;
- an overview of procedures performed or the auditors’ approach to the matter;
- an indication of the outcome of the auditors’ work with respect to the matter; and
- a clear reference to the related disclosure in the financial statements (except in the case of a KAM on non-financial elements).

This last point is structuring and should be highlighted: the auditor should not be the one who delivers the information, instead of the management (or those in charge with governance).

We suggest not using the word “conclusion” in each KAM, to avoid giving some “piecemeal opinion”.

**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.**

As already mentioned, we appreciate the efforts done by the IAASB to provide examples. We find them useful, especially the one on Goodwill.

However, we consider that the example on Revenue Recognition relating to Long-Term Contracts could be misinterpreted. As a matter of fact, this example could be read as if there were systematic risk of material misstatement due to fraud, because of possible side agreements. There could be side agreements on other topics as well. We think that this kind of example could become an expectation on all areas and also would cause a doubt on the integrity of the management if it is not connected to a certain context which could affect the evaluation of the control environment.

**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 are aware that the demands for “Auditors Commentary” have come primarily from institutional investors and analysts of listed entities. However, we think that providing “Auditors Commentary” for all audits -when it is applicable- is helpful for the progress of audit quality and better understanding of the auditors’ report by all users. It is also important not to create clusters in the standards, as “an audit is an audit”.

Besides, we believe it is important to be consistent with the proposal of changing ISA 260 *Communication with Those Charged with Governance* to include communication about the significant risks identified by the auditor for all the types of entities (listed and non-listed 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. However, we think it should be rare because the KAM is a relative concept “of most significance”.

**If so, do respondents agree with the proposed requirements addressing such circumstances?**

Yes.

**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. This enables more clarity in the communication and will avoid having too long auditor's reports.

**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?**

Yes. It is key to keep the EoM and OM paragraphs. However we think that a clear guidance and differentiation should be done:

- not all entities are listed;
- in certain jurisdictions, Emphasis of Matter paragraphs may be compulsory in certain cases;
- certain topics should be connected with other standards such as ISA 560 *Subsequent events*.

We think that one or two examples of co-existence of EoM + KAM could be provided (see question 2).

**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.**

The going concern paragraph is a divided in two parts:

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

We think that the first one is clear and applicable.

However the second one could be:

- Misinterpreted especially when the first part is the confirmation of the appropriateness and the second part relates to material uncertainties;
- Considered as a "guaranty", which is not so relevant and quite difficult in practical application, especially in the context where the medium term visibility, or even the short term (12 months) one, is a challenge for the entity itself.

We also consider that the auditor should not be the one who provides this kind of information, without a direct link to the statement of the management itself, who is responsible on such an matter. So the second part should have a very direct reference to the disclosures of the financial statements.

In order for the auditor to be able to comply with the requirement of the second paragraph, we believe that the following pre-requirements should be:

- definition of the concepts of going concern, material uncertainties, significant doubt by the financial reporting standard setters (both for the IFRS and the local gaap);
- link with the notes of the financial statements regarding 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;
- Clear introduction of the section "going concern" : the sentence "However neither management nor the auditor can guarantee the Group's ability to continue as a going concern" could be put as an introduction of the section on the going concern, based for example on the 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";
- To provide with more guidance, and maybe a decision tree to cover all cases, to facilitate the application and reduce the expectation gap by introducing three typical cases:
  - o If there is no going concern issue: a short summary in the "going concern" section could be included;
  - o If there is a more than probable going concern issue or a significant doubt: the equivalent of the KAM included in the "going concern" section with a reference to the management disclosure in the financial statements;
  - o If there is a factual going concern issue: a detail should be included in the "going concern section" and a link with the use of the assumption of going concern for the accounting and the impact on the opinion.
- To make it simpler for the reader so that all topics related to the going concern are located in the section called "going concern", especially if there is a disclaimer or a qualification due to a material uncertainty for example;
- More guidance by sector (such as banking sector).

**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 answer to question 9

**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 if the disclosure is clear and synthetic and also mentions the differences between the IFAC code of Ethics and the local requirements in the case of transnational audits.

**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 do agree with the proposal made by the IAASB.

**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?**

Relocating the paragraph on the auditor's responsibilities to a website of the appropriate authority, or to an appendix to the auditor's report: we believe that the auditor's report must be self-explanatory and stand-alone (of course including the attached financial statements).

**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?**

We believe that all countries being part of the IFAC have also statements of membership obligations to comply and adopting the ISA is a common objective. We think that it would be helpful to have a compulsory order. Of course, in order to be pragmatic, a transition period could be planned.