

Office of the Secretary  
PCAOB  
1666 K Street, N.W.  
Washington DC 20006-2803  
USA

13 December 2013

Référence : YN.JZ.CG.CB 20131009

**Re : Comments on PCAOB Rulemaking Docket Matter No. 034 – Proposed Auditing Standards Regarding the Auditor's Report and the Auditor's Responsibilities Regarding Other Information**

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Dear Sir or Madam,

The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) welcome the opportunity to comment on the proposed auditing standards regarding the auditor's report and the auditor's responsibilities regarding other information. Because of the economic links between France and the USA (and more generally between the European Union and the USA) and because of the very active involvement of the French Institutes in the IAASB, we are of course very interested in the PCAOB's initiative. Some French statutory auditors are registered with the PCAOB and carry audits and issue reports under PCAOB GAAS for French Issuers on the American market and this is another reason why we want to provide comments on the PCAOB's exposure draft.

Indeed, the reform of the auditor reporting that is currently being addressed by the PACOB is also being discussed on the other side of the Atlantic by the European Union<sup>1</sup> and at international level by the IAASB.

The auditor's report is the primary means by which the auditor communicates to investors and other users of financial statements information regarding his audit of the financial statements. This is why these projects are of the utmost importance and convergence among major constituencies is vital.

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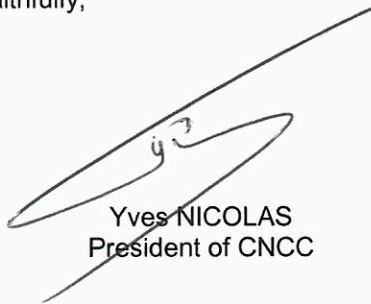
<sup>1</sup> Proposal of the European Commission available at:  
[http://ec.europa.eu/internal\\_market/auditing/reform/index\\_en.htm#maincontentSec1](http://ec.europa.eu/internal_market/auditing/reform/index_en.htm#maincontentSec1)

Envoyer obligatoirement toute correspondance aux deux adresses ci-dessous :

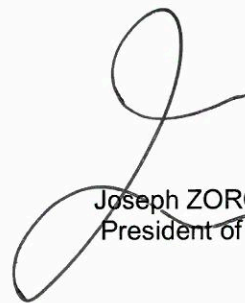
We are pleased to provide you hereafter with our general comments on these two proposed auditing standards, respectively *The Auditor's Report on an Audit of the Financial Statements When the Auditor Expresses an Unqualified Opinion* and *The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report*.

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

Yours faithfully,



Yves NICOLAS  
President of CNCC



Joseph ZORNIOTTI  
President of CSOEC



## **1. General comments on the Proposed Auditing Standard - The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion**

We strongly support the proposed communication in the auditor's report of critical audit matters ("CAM") describing the matters the auditor determined to be of most significance 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 useful<sup>2</sup>. We note that the PCAOB has made reference in its earlier papers to the French "justification of assessments" as a mechanism that was worth exploring and we are glad to see that the PCAOB proposal is, in substance, similar to the French "justification of assessments".

Convergence of auditor's report between the PCAOB, the IAASB and the European Union will enhance the communicative value of such report across various jurisdictions. As some entities require audit reports under both PCAOB and IAASB standards (and in the future may also need to comply with European requirements regarding auditor's report), it is important that there is consistency in the structure, content and format of the auditor's reports even of auditing standards applied differ to some extent.

We welcome the PCAOB convergence efforts with the IAASB proposed auditing standard on the auditor's report. However, we note some remaining differences:

- Different terminology to label the matters that were of most significance in the audit

The PCAOB proposes to use the words "Critical Audit Matters" ("CAM") versus "Key Audit Matters" ("KAM") in the IAASB proposed Auditing Standard. Different words to address a similar concept may be confusing for the users of the auditor's report, especially in the cases of entities that require audit reports under both PCAOB and IAASB standards, and may therefore limit the communicative value of the auditor's reports.

We consider that the term "Critical", which could be perceived as "negative" (it means "crucial" but also could mean "containing or making negative judgments" or even "involving a criticism"), may provoke anxiety for users of auditor's report. It may also generate potential translation issue, for entities which have to translate the PCAOB report into another language.

- Different content of the "CAM" / "KAM" section

We consider that the absence of information on the audit procedures performed by the auditor and the conclusion reached may also create anxiety for users of the auditor's report who may not understand whether the matter has been resolved to the auditor's satisfaction or not. In line with our comment letter to the IAASB Exposure Draft on "*Reporting on Audited Financial Statements: Proposed New and revised International Standards on Auditing*"<sup>3</sup>, we suggest that the PCAOB should mandate a developed content and structure of the "CAM", i.e. specify that the description of each "CAM" should include the following information:

- the reason of the selection of a matter as a CAM,
- 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,

<sup>2</sup> Study independently conducted 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](http://www.cncc.fr/download/footprintconsultant_reportstudy_va_cncc_fev2011.pdf)

<sup>3</sup> Our comment letter is accessible at : [https://www.ifac.org/sites/default/files/publications/exposure-drafts/comments/CNCCSOEC\\_0.pdf](https://www.ifac.org/sites/default/files/publications/exposure-drafts/comments/CNCCSOEC_0.pdf)



- 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 also note that the PCAOB has not provided any illustrative examples for the “CAM” section in the proposed PCAOB auditing standard

On the contrary, in its proposed auditing standard on “*Reporting on Audited Financial Statements*”, the IAASB provides 4 examples to illustrate the KAM section. We encourage the PCAOB to also provide examples of CAM in support of its proposal, at least for educational purposes.

- Going concern issue

We note that the PCAOB has not addressed the going concern issue, when this issue is indeed addressed in the proposed IAASB auditing standard on “*Reporting on Audited Financial Statements*” and in the currently discussed reform of the auditor-related EU legislation<sup>4</sup>. We encourage the PCAOB to tackle this issue. A lack of convergence on that precise issue would be detrimental to the communicative value of the auditor’s report across both sides of the Atlantic.

## **2. General comments on the Proposed Auditing Standard – The Auditor’s Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor’s Report**

We support the enhanced work effort with respect to other information and the communication in the auditor’s report regarding the auditor’s responsibilities for, and the results of, the auditor’s evaluation/consideration of the other information. Here again, we believe that convergence between the PCAOB, the IAASB and the EU<sup>5</sup> is essential.

We support the concept developed in paragraph 4 of the appendix A2, i.e. “read the other information based on relevant audit evidence obtained and conclusions reached during the audit”. However we believe that the work effort developed in bullet points (a) to (b) is not “principle based” enough. It does not entail any concept of materiality. In addition, it is also difficult to understand the note to bullet point (d).

We wonder whether the terminology “read and evaluate” in the proposed PCAOB auditing standard is actually appropriate in light of the work effort required which does not seem to lead to an “evaluation” and we question the difference with the concept of “read and consider” in the proposed IAASB auditing standard<sup>6</sup>. We therefore encourage the PCAOB to provide additional guidance to illustrate this “evaluation” requirement.

<sup>4</sup> Directive of the European parliament and of the council on statutory audits of annual accounts and consolidated accounts, Regulation of the European parliament and of the council on specific requirements regarding the statutory audit of public-interest entities

<sup>5</sup> For information, a new European requirement has recently been voted in the recast of the Accounting Directive. As stated in Article 34:

“[In addition to statutory audits on the basis of Directive 2006/43/EC], the statutory auditor(s) or audit firm(s) shall also:

(a) express an opinion on:

(i) whether the management report [which is often used as a proxy for other information] is consistent with the financial statements for the same financial year, and

(ii) whether the management report has been prepared in accordance with the applicable legal requirements;

(b) state whether, in the light of the knowledge and understanding of the undertaking and its environment obtained in the course of the audit, he, she or it has identified material misstatements in the management report, and shall give an indication of the nature of any such misstatements.”

The approved Directive is accessible at:

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:182:0019:0076:EN:PDF>

<sup>6</sup> ISA 720 - *The auditor’s responsibilities relating to other information*

We do not support the distinction made by the PCAOB between the two following concepts, i.e. “material misstatements of fact” and “material inconsistency”. We believe that this distinction is not useful for the users of the auditor’s report who are rather interested to understand whether there is “something wrong” with the other information, irrespective of whether this “something wrong” comes from an inconsistency with the financial statements or with the audit evidence obtained and conclusion reached during the audit. Using a generic term such as “material misstatement of the other information” would certainly simplify the reporting on the other information. We also find it difficult to have in the standard the concept of “material misstatement of fact” without defining it. Does it include omissions for example?