MAZARS

Contribution to the Green Paper
published by the EU Commission

Audit policy:
Lessons from the Crisis

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Cover letter

Contribution to the consultation on the Green Paper "Audit policy: Lessons from the Crisis"

Dear Commissioner,

Mazars is an integrated international audit firm originated from the EU with more than 740 global partners and 13,000 professionals operating in 61 countries. We all warmly welcome the publication of the Green Paper "Audit Policy: Lessons from the crisis" and the launching of a wide-ranging public debate on the future role of the auditor and the future shape of the audit market in the EU.

We are firmly convinced that the Financial Services Action Plan (FASP) creates the economic conditions for a more integrated and competitive audit market in the EU that will better serve the public interest. We also share the view that the auditing profession cannot ignore the causes and the consequences of the most serious financial crisis to take place since the formation of the European Union more than five decades ago.

In our detailed response to the questions posed in the Green Paper which is attached, building on the proposals of the EU Commission, we suggest a number of practical regulatory measures forming a consistent and pragmatic "reform package" which includes the following:

- *an EU registration and supervisory regime;*
- *transparent, regular and fair tendering;*
- *prohibition of contractual clauses and elimination of the bias in favour of dominant players;*
- *progressive and balanced joint audits;*
- *rigorous and global monitoring of anti-competitive "up-stream" mergers and acquisitions by dominant players;*
- *enhanced governance and transparency of audit firms;*
- *better identification and assessment of risks by auditors;*
- *more extensive communication on audit findings and appropriate liaison with supervisors;*
- *additional assurance relating to narrative reporting.*

We believe this will increase transparency and confidence in capital markets, favour financial stability and healthy economic growth and help develop a fair, open and diversified audit market.

The benefits from creating a Single Market in audit

The EU Single Market for services has developed in stages and has progressively expanded its remit with, for example, two or three generations of directives being needed to enable banks, insurance companies and securities markets to provide services freely across the EU with a harmonised set of rules and a more integrated approach to supervision. This has not yet happened in the case of the audit market which is lagging behind in terms of freedom to provide services and co-ordinated approach to supervision. The objective ***of building a more integrated Single Market for audit*** *is therefore greatly supported by Mazars. To serve the public interest a genuine Single Market for audit would need to be integrated, competitive and diversified.*

Integrated

To respond efficiently to the auditing needs of international companies, we favour a registration and supervisory system that offers firms with the capability and desire to operate in a number of Member States ***the option to be registered and supervised by an EU-wide authority****. We would nevertheless support having sufficient* ***flexibility at the national level*** *to deal with the registration and supervision of local firms in a proportionate manner and to lead on matters related to the professional qualification of individual auditors.*

For cross-border audit work to be effective, further harmonisation of the requirements relating to auditing and to audit firms will be necessary. Given their key public interest role, audit firms that are auditing a significant number of public interest entities should themselves adhere to the highest standards of corporate governance and implement an ***EU code*** *of audit firm governance in order to demonstrate they are setting the right tone at the top of the firm. There should also, to the extent achievable, be* ***a progressive "maximum harmonisation"*** *approach across the EU as regards the implementation of requirements related to auditing and audit firms. This will help to raise overall standards and create a level playing field across the Union. As part of this process, with due respect to the sovereign interest of the Union, we support* ***the introduction of ISAs in the EU*** *and believe that supervisory authorities should be allowed to cooperate with authorities in non-EU countries if equivalent confidentiality rules are applicable and reciprocity is granted.*

Competitive

To be open, fair and competitive, there should be a vibrant Single Market for audit with a diversified range of offerings. Rather than forcing rotation, we support the ***transparent, regular and fair tendering*** *of audits by listed companies and systemic financial institutions as well as* ***the prohibition of contractual clauses and the elimination of the bias*** *in favour of dominant players.*

We do, however, favour ***the appointment of the auditor by the governing bodies of the audited entity****, so long as the appointment is made independently of management, as we believe this contributes to healthy competition in the audit market. Other means of appointment would blur responsibilities.*

An increased number of players in the audit market for listed companies would help create a more competitive environment in terms of price, range of offerings and client service, which would benefit companies and their investors. It would also address the "too big to fail" dilemma and reduce the risk of the regulatory capture of supervisors.

Finally, quality audit requires talented people to be attracted to the auditing firms and we believe this is most likely to continue to occur if ***multidisciplinary firms*** *are permitted* ***to provide advisory services within well defined boundaries*** *to the companies they audit and advisory services of various kinds to other companies.*

Diversified

We share the concerns of the Commission that ***the failure of a dominant audit firm could create sudden uncertainty*** *relating to the financial statements of hundreds of listed companies leading to high volatility in capital markets and triggering uncertainty in the insurance and re-insurance market. The introduction of* ***audit consortia/joint audit is the most effective and tested means by which to significantly reduce this specific kind of risk*** *resulting from excessive concentration.*

Experience and figures show ***that audit consortia/joint audit do not lead to substantial additional cost*** *or undue burden and that they are an effective mechanism to facilitate the progressive emergence and the development of alternative players with sufficient expertise and geographic coverage to audit leading listed companies in the EU. Building on the proposal in the Green Paper, we would encourage* ***the adoption of transitional measures*** *to bring about the smooth implementation of the concept of balanced joint audit. The introduction of such kind of audit consortia will need to recognize market places where joint audit is already applied.*

In addition, we believe that ***"upstream" mergers or acquisitions by dominant players should be carefully monitored, if not banned.*** *This issue should be looked by the competent authorities on a global basis since what is at stake is the development of global alternative capabilities.*

Audit as a driver for a more stable and transparent Single Market

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

Further improvement of the quality of audit

We agree that the degree of judgment that needs to be exercised by the auditor should go beyond mere compliance with standards. Experience shows that the bringing together and discussion of two independent viewpoints, as occurs in ***a joint audit****, assists in making sound judgements and thus* ***contributes significantly to quality assurance****. This is particularly true in an environment governed by* ***"principles-based" IFRS that rely heavily on judgement.*** *We are also recommending greater transparency on the disclosure of key audit findings to the governing bodies of the company.*

Improved liaison with supervisors

With a clear definition and understanding of each other's role, ***auditors could also liaise more extensively with supervisors****. The EU could even consider the opportunity of creating a* ***"duty to alert"*** *for auditors. Liaison with*

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

Adapting the role of auditors to an evolving reporting model

We believe that the role of ***auditors should become more dynamic****, with a focus on added value, and be conducted in a manner that contributes to fostering sustainable growth in the audited entity having regard to the economic, financial, regulatory and risk environment in which it operates. Within a well defined framework,* ***auditors could be asked to provide assurance on some other aspects of narrative reporting****, for example in relation to information provided by the directors on business performance and future prospects. The Green Paper also raises the possibility of extending the auditors' role to encompass the area of corporate social responsibility which is worthy of further exploration.*

The partnership model and its focus on independence

To be effective, an expanded role for auditors would need to be underpinned by a widespread acceptance of their high degree of independence and their ability to make accurate judgements. This is why we believe ***the partnership model is the preferred institutional model, as it protects the independence*** *of audit firms and their public interest focus from undue influence. We believe there should be sufficient finance available to well managed firms to enable them to expand including the necessary access to external debt capital. However we are not against other models subject to the implementation of strict governance rules.*

We strongly believe that a comprehensive and consistent "reform package" can produce rapid diversification and enhance financial security and stability if implemented on an EU-wide basis. ***We suggest that the EU institutions measure progress on a regular basis.***

We will be pleased to provide you with any further information you might consider useful and look forward to actively contributing to the next steps of this key project for the EU for which, indeed, ***"no action" is not an option.***

Yours sincerely,

Patrick de Cambourg
President of the Group Executive Board
Mazars

GREEN PAPER

Audit Policy: Lessons from the Crisis

Answers to the questions

Preamble

0.1 Mazars is an integrated international partnership originating from within the European Union. Its central legal structure, a Belgian limited liability cooperative, was established in 1995 in order to group around shared values and institutions qualified and experienced professionals, its "partners", and their teams. As of today, 740 partners operate on the basis of this alternative model in 61 countries around the globe (with a global team of 13 000 professionals, from 1 200 in 1995).

0.2 We have the firm belief, on the basis of our commitment to the public interest, that there is a call for more competition and diversity in the audit market as well as a need for more efficiency in audit processes and greater accountability from the auditors. It was our conviction in 1995 and we believe it is still very valid today, in particular at a time when the current crisis brings about a challenge to the efforts constantly made by the audit profession and the audit firms to improve structures, processes and techniques and to deliver services that meet public expectations.

0.3 We also have the firm belief that the European Union has a role to play in fostering the development and efficiency of a well balanced global audit market. We see a multi-polar world emerging and feel that it is desirable that the Single Market forms a robust and competitive part of this new global framework of the audit market.

0.4 Other audit firms have chosen a different model, e.g. that of networks, and some of these firms have today a dominant influence. Our views should not in any way be perceived as a criticism of the dominant firms and their teams or of their model. They have a role to play. Other players, including Mazars, also have a role to play and we feel it is their duty to provide alternative proposals in the interest of the public debate and in the interest of increased diversity, innovation and competition. There are many ways to contribute. We believe that since in our view the status quo is not the best option, and therefore promoting a well designed reform path to bring about positive changes in the audit market is the way forward.

0.5 Some of our views might be perceived as inspired by "self-interest". We seek to set out the reasoning underlying our views and to demonstrate how our proposals advance the public interest. Therefore, others may judge for themselves whether they consider that these proposals are in line with this goal. In fact, our "key interest", in line with our core partnership principles, is that the public interest progresses.

0.6 We would be happy to discuss our submission with the European Commission and, in due course, other stakeholders in this very important debate. Mazars is ready to take part in, and assist when appropriate, any process that the Commission, the Council or the European Parliament may want to establish to move forward in the matters related to this submission.

Introduction

#1 Do you have general remarks on the approach and purposes of this Green Paper?

SUPPORT FOR THE CONSULTATION AND FOR AN OPEN EU DEBATE

1.1 We warmly welcome the Green Paper and believe that its publication is timely since Europe has experienced one of the most severe financial and economic crises since World War 2, and since, as a consequence, there are lessons to be learnt. Auditors may not have a primary responsibility for the crisis, but they have the duty to consider how they may however have played a certain role and, above all, how they can contribute from now on to prevent and to address such circumstances.

1.2 We also welcome the wide-ranging nature of the consultation. We believe a holistic approach is needed to promote reforms that enhance the value of audit for shareholders and other stakeholders, promote financial stability, advance the creation of a competitive Single Market for audit services and help foster economic growth across the European Union.

1.3 We are committed to making a constructive contribution in a context where we share the view of many, in our profession and more importantly outside our profession, that the status quo is not the best option for the EU. We support an open debate and would expect a positive outcome to the benefit at all interested parties.

#2 Do you believe that there is a need to better set out the societal role of the audit with regard to the veracity of financial statements?

DUTIES RELATED TO PUBLIC INTEREST RESPONSIBILITY

2.1 Yes, certainly, it is important to underline that auditors play an important societal role, which is also sometimes referred to as a public interest responsibility. This commitment needs to be clearly understood by everyone involved in auditing including: auditors, others in professional firms which include auditors, the relevant professional bodies, shareholders, boards, regulators and governments. It should be clear that audit has a societal role that goes beyond a simple contract between the auditors and the audited entity represented by its shareholders, in particular in the case of public interest entities, but not exclusively.

2.2 As an auditing firm we recognise the privilege bestowed upon us in being licensed to undertake statutory audits and the responsibilities that go with this significant role. As such, we are pleased to contribute to

the debate to promote an open and vibrant audit market that is responsive to stakeholders' needs and the wider public interest.

2.3 We support the view that the need to serve the public interest justifies an appropriate level of regulation and oversight. This is necessary to establish a sound and level playing field and to stimulate, whenever needed, the alignment of all players around recognised best practice.

#3 Do you believe that the general level of "audit quality" could be further enhanced?

FURTHER ENHANCEMENT DESIRABLE

3.1 Yes, as part of its commitment to serve the public interest by upholding and promoting the highest standards, the profession should always be seeking ways to improve the quality of audit.

3.2 Despite a collective effort to improve the quality of auditing in recent years, we believe further work is needed regarding in particular:

- the organisation, governance and transparency of audit firms;
- the identification and assessment of risk, in particular when there is a potential systemic dimension;
- the analysis and treatment of complex transactions;
- the conduct of complex transnational audits;
- the communication "around" the auditors' opinion and the perception of their role;
- the key drivers of audit quality and of innovation in the audit market.

3.3 There is scope for larger audit firms to consider how they could better communicate on emerging risks when they first start to be noticed. In accordance with their public interest function, auditors should be able to translate their micro-economic observations, gathered during the course of the audit work they conduct, into a macro-economic survey of emerging issues (on a "no names" basis). They would contribute to an "early warning" system that would be beneficial to all stakeholders.

Role of the auditor

#4 Do you believe that audits should provide comfort on the financial health of companies? Are audits fit for such a purpose?

A "DUTY TO ALERT" FOR AUDITORS?

4.1 The primary purpose of an audit is to express an opinion on whether the financial statements of a business show a true and fair view of its performance for the period under review and of its position at its period end. In preparing the financial statements, the auditors have to consider whether it is appropriate to prepare them on a going concern basis which involves making an assessment of its expected ability to continue as a going concern for the foreseeable future and normally for at least 12 months from the date of their report. That said, any forecast is subject to unexpected changes in the external environment the company faces and to the actions of management and the board in running and directing the business. Therefore, an audit cannot inherently give assurances on the future financial health of a company. The only indication, a negative one, that may be given is when the audited entity does not pass the test of whether it is a going concern.

4.2 Whilst we believe audits are fit for purpose, we also believe there are opportunities to explore ways by which they can be enhanced. We make some suggestions on how this could be achieved. On financial health:

- auditors have regular contact with the audited entity and in the course of their work, they have the opportunity to become aware of issues bearing on its financial health. Where there is a deterioration threatening the applicability of the going concern concept, the auditors will need to determine how best to respond to the new circumstances. The procedures for doing this are more formally set out in some Member States than in others (for instance, structured dialogue with the management, those responsible for governance, the shareholders and, in difficult circumstances, with the regulators and other relevant authorities). We suggest that a survey be conducted at EU level to assess the effectiveness of existing such procedures in the different Member States and accordingly consider the possibility of creating a "duty to alert".

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

#5 To bridge the expectation gap and in order to clarify the role of audits, should the audit methodology employed be better explained to users?

SUPPORT FOR AN EDUCATIONAL INITIATIVE

5.1 We would be pleased to participate in an educational programme to explain our audit methodology to institutional investors and others with a major interest in auditing, including regulators, and we would encourage them to participate in such an initiative. More generally, the Commission underlines several approaches including greater conciseness, public justification of the audit opinion and disclosure of any and all information of public interest. Some of these proposals are more formally set out in some Member States than in others. Here again, an EU-wide survey could help to assess the effectiveness and the relevance of these approaches for the users.

#6 Should "professional scepticism" be reinforced? How could this be achieved?

ENHANCING "PROFESSIONAL SCEPTICISM"

6.1 Yes, the exercise of professional scepticism is essential when undertaking an audit. There will always be merit in reminding everyone involved in auditing of the importance of scepticism. This very message should be included in the professional training and continuing development of auditors, e.g. through case studies of audit failures where it was not sufficiently exercised and, as importantly, of instances where it led to the uncovering of major issues in an audited company.

6.2 Audit firms need to find the appropriate balance between the audit partner having ultimate responsibility for the audit opinion, and the judgements exercised in reaching it, and the trend towards more central control in the firms given the growing complexity of financial statements and the need for expert advice on various transactions, events and balances. From a formal responsibility standpoint, it would be worthwhile exploring whether there are merits in following the approach adopted in some Member States whereby the name of the responsible audit partner on a particular assignment is identified alongside that of the firm.

6.3 The exercise of professional scepticism is considerably enhanced within a joint audit. This point is more extensively described in our response to Question 28.

#7 Should the negative perception attached to qualifications in audit reports be reconsidered? If so, how?

HIGHLIGHTING CERTAIN CRITICAL POINTS IN ADDITION TO THE OPINION ITSELF?

7.1 A negative perception is appropriate when financial statements are not judged unequivocally to show a true and fair view. Auditors should clearly express their view on whether or not the financial statements do show a true and fair view.

7.2 This said, we believe the real issue is a different one. The key questions are:

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

7.3 Alternatively, as discussed in response to Question 8 below, the board or the audit committee could identify the key issues in the annual report with the auditor concurring with the disclosures made, if applicable.

#8 What additional information should be provided to external stakeholders and how?

CONCURRING WITH MANAGEMENT AND GOVERNANCE STATEMENTS?

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

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

#9 Is there adequate and regular dialogue between the external auditors, internal auditors and the Audit Committee? If not, how can this communication be improved?

ENHANCING EFFECTIVE DIALOGUE

9.1 Effective dialogue between the external auditor, internal auditor and the audit committee is critical for an effective audit. The extent of dialogue and its effectiveness will naturally vary between jurisdictions and companies. It is impossible to guarantee effective dialogue just by laying down formal requirements as the quality of the relationships between the respective parties, as well as the capabilities of each of them, will be a key determinant of the effectiveness of the dialogue. There are, however, opportunities through codes and good practice guidance to highlight some of the key features likely to ensure effective dialogue.

9.2 We would like in particular to point out that the dialogue between auditors and audit committees seems to have significantly improved in recent years but that there is probably greater variability in the quality of the dialogue between external and internal auditors. There would be merit in developing guidance on good practice in order to improve such dialogue.

#10 Do you think auditors should play a role in ensuring the reliability of the information companies are reporting in the field of CSR?

PROMOTING RELEVANT FRAMEWORKS AND GOOD PRACTICE

10.1 Yes, the role of statutory auditors, or more generally of auditors qualified to be statutory auditors, in relation to information provided on corporate social responsibility issues, should be further explored.

10.2 The current unregulated system relating to the audit of CSR information is a matter of concern. Some experts offering assurance on statements made by companies are not subject to strict professional regulations that apply to statutory auditors, in particular regarding independence, and quality assurance and control system. There are a number of issues to be considered. What information should be subject to assurance? Should a distinction be drawn between information in the annual report accompanying the financial statements and that in standalone CSR reports? To whom should the assurance report be addressed? Should the provision of assurance form part of the statutory audit or be a separate assignment? Should all statutory auditors be able to provide assurance on CSR information or should only those identified as having the necessary expertise in CSR matters be able to do so? We would encourage the Commission to undertake or stimulate further work on these issues.

10.3 As a consequence, we support initiatives which develop relevant frameworks, good practice or standards in the field of CSR.

#11 Should there be more regular communication by the auditor to stakeholders? Also, should the time gap between the year end and the date of the audit opinion be reduced?

ENHANCING COMMUNICATION WITH STAKEHOLDERS

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

11.2 In order to improve communication between auditors and stakeholders, primarily shareholders, we believe there would be merit in the auditors attending the general meeting during which the audited financial statements are laid and being prepared to answer previously submitted questions. We would encourage the Commission to consider how best to take this forward.

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

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

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

#12 What other measures could be envisaged to enhance the value of audits?

ADAPTING THE ROLE OF AUDITORS TO A CONSTANTLY EVOLVING REPORTING MODEL

12.1 Company reporting is not just about retrospective financial information! On the one hand financial reporting is getting more complex and difficult to interpret. To certain extent, as a consequence of this, narrative reporting is developing fast. Both call for an evolution in the role of auditors.

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

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

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

#13 What are your views on the introduction of ISAs in the EU?

SUPPORT FOR INTRODUCTION OF ISAS IN THE EU

13.1 We support the introduction of the clarified ISAs within the EU as we believe they are of a high quality, are recognised around the world and would significantly enhance harmonisation in auditing in the EU.

#14 Should ISAs be made legally binding throughout the EU? If so, should a similar endorsement approach be chosen to the one existing for the endorsement of International Financial Reporting Standards (IFRS)? Alternatively, and given the current widespread use of ISAs in the EU, should the use of ISAs be further encouraged through non-binding legal instruments (Recommendation, Code of Conduct)?

AN APPROPRIATE ENDORSEMENT MECHANISM

14.1 As indicated, we support ISAs being introduced throughout the EU. We understand that if this is to be achieved the only practical way forward is through the enactment of legislation at EU level.

14.2 The sovereignty of the EU will be respected if there is a mechanism to approve these standards before their implementation. Such endorsement mechanism should focus on those issues requiring real attention. One way to achieve this would be on a "by exception" basis whereby standards would be exposed for consultation for a reasonable period of time and would be "automatically" adopted unless specific issues requiring further consideration were raised.

#15 Should ISAs be further adapted to meet the needs of SMEs and SMPs?

APPLICABILITY OF ISAS TO COMPANIES OF DIFFERENT SIZE

15.1 Whilst IAASB has regard to the needs of SMEs and SMPs in drafting ISAs, we note that concerns remain in many Member States on applying them when auditing such organisations. We share this concern but do not believe the solution is to exempt SMEs and SMPs from audit as it brings benefits to these businesses and the stakeholders in them and as ISAs allow for proper account to be taken of the audited entity's size and environment.

Governance and Independence of Audit Firms

#16 Is there a conflict in the auditor being appointed and remunerated by the audited entity? What alternative arrangements would you recommend in this context?

SAFEGUARDS ON APPOINTMENT

16.1 No, we see no conflict and we believe that the appointment of the auditors should remain with the audited entity, with of course the necessary safeguards to protect the auditors' independence being implemented without exception.

16.2 The main conflict to be avoided is that of management having a direct decision-making role in the appointment of the auditors. In the case of public interest entities, as the independent directors/members of the board are appointed by the shareholders to exercise independent oversight of management, we believe it is reasonable that they play a key role in the appointment process. They should be given the responsibility for recommending to the shareholders who should be appointed as auditors. We also believe that regular and fair tendering following a transparent process up to the outcome provides important safeguards to independence.

16.3 As a practical issue, any alternative arrangements within the company are difficult to design and would be likely to involve shareholders making the appointment directly. There is no sign that they have the necessary resources or inclination to get involved to such an extent in the selection of the auditors as opposed to voting on a recommendation from the board based upon due process.

16.4 If the audit committee driving the appointment due process is to be fully independent of management then it should be wholly comprised of independent directors and this should be regarded as standard practice for large listed companies across the EU. This is not currently a requirement of the Eighth Directive.

SAFEGUARDS ON REMUNERATION

16.5 It is important in our view that similar safeguards be implemented for the remuneration of the auditors. Protecting independence at the time of appointment is crucial but there is a risk, or the perception of a risk, that the on-going independent relationship may be impaired because of financial matters. As a consequence, we support a regular involvement of the audit committee in the monitoring of the auditors' overall remuneration including agreeing on the appropriateness of the "base" audit budget (hours, rates) in relation with the audit approach, terms and conditions of additional audit work, terms and conditions of non-audit services... Anything over and above the "base"

audit budget should be monitored carefully from a protection of independence standpoint.

ROLE OF REGULATORS AND OVERSIGHT BODIES

16.6 It is difficult, and maybe counterproductive, to regulate in detail matters such as the due process for appointment and remuneration of auditors. We feel that any regulation should be "principles-based" and that the practical aspects should be left to governance codes taking into consideration the specificities of each jurisdiction within the Single Market.

16.7 However, we believe that regulators and oversight bodies should regularly review the overall appropriateness of the due process followed by companies and audit firms. This point is discussed further under Question 17.

#17 Would the appointment by a third party be justified in certain cases?

THE APPOINTMENT BY A THIRD PARTY NOT DESIRABLE

17.1 No, we do not believe that auditors should be appointed by a third party such as a regulator, except in crisis situations, as we believe alternative arrangements can be applied to ensure a reasonable level of independence for the auditors. Furthermore, not to involve the shareholders would encourage disengagement by them on auditing matters when the opposite effect is desired. The direct involvement of third parties would also change the relationship between auditors and the audited entity and could adversely affect the audit process and its quality. We generally feel that a company should choose its auditor and would stress that an audit is permanent which differs from an inspection (in this latter case one would expect a third party to make the appointment for a limited period of time).

THE INVOLVEMENT OF REGULATORS AND OVERSIGHT BODIES

17.2 We believe that regulators and oversight bodies have a general role to play in relation to audit appointments, which falls directly within the scope of their respective responsibilities.

17.3 Regulators should consider a number of possible options:

- publication of guidance on good practice;
- development of a "kite mark" at EU level to highlight which firms are capable of auditing leading listed companies in the EU (see §30.7 below);
- maintaining a list of firms that are eligible to undertake certain audits, specially when systemic risk is involved, e.g. financial institutions;
- ensuring due process is followed: implicit or explicit approval of auditors' appointment or oversight of due process appear to take place in a number of Member States, either generally or for certain activities only. Such measures could be explored further.
- survey on the evolution of due processes...

17.4 When regulators have a direct role vis-à-vis companies, oversight bodies can directly impact audit firms. Their contribution to standards and best practice is key. They can also, and already do so in a number of EU jurisdictions, include in their inspections a review of the terms and conditions of the appointment and remuneration of the inspected audit firm. In our view, this does contribute to the proper functioning of the system.

#18 Should the continuous engagement of audit firms be limited in time? If so, what should be the maximum length of an audit firm engagement?

NOT SUPPORTIVE OF MANDATORY ROTATION

18.1 No, we do not support the idea that continuous engagement of audit firms should be limited in time, i.e. with mandatory rotation of auditors (see our response to Question 29 below). We believe that the rotation of the audit partner is already enhancing independence and that other tools proposed by the Commission would more efficiently reduce systemic risk, promote financial stability and reduce the current level of concentration in the audit market. These measures include regular and fair retendering for listed companies and the appointment of joint auditors in appropriate circumstances.

CONSIDERATION TO BE GIVEN TO MINIMUM DURATION OF MANDATE

18.2 The Eighth Directive currently does not address the length of a single engagement before coming up for re-appointment and experience shows that the length of mandates varies from annually in some Member States to six years in others. As discussed in our response to Question 29, there seems to be some suggestion that where there is a longer period retendering is more frequent leading to a more vibrant audit market. A minimum length is also a good way to minimise the possible threats over independence. There would be merit in further exploration of such a minimum length (perhaps a period of 3-4 years).

#19 Should the provision of non-audit services by audit firms be prohibited? Should any such prohibition be applied to all firms and their clients or should this be the case for certain types of institutions, such as systemic financial institutions?

THE ADVANTAGES OF MULTIDISCIPLINARY PRACTICES

19.1 No, since in our view prohibiting the provision of non-audit services by audit firms would definitely be detrimental to the harmonious development of the Single Market.

19.2 Firstly, it would be detrimental to the quality of auditing in the EU:

- the proper conduct of an audit today requires a range of skills that, in our view, implies a multidisciplinary approach. The complexity of transactions and environments is such that no single professional possesses the wealth of all necessary skills. A successful audit implies a team approach under the leadership and responsibility of the person ultimately responsible for the issuance of the audit opinion.

- audit firms would not be able to attract and retain the best talent if they were restricted to pure auditing. Professionals in disciplines other than auditing, that are key to the success of an audit, and cannot be "sub-contractors" only. Excluded from the mainstream of their respective areas of competence, they would loose ground and be unable to benchmark and, in the end, to contribute at the right level.

19.3 Secondly, prohibition would be detrimental to the quality of non-audit professional services in the EU:

- audit firms are not the only providers of non-audit services but audit firms have a quality in terms of methodologies and service delivery that, through osmosis, creates an environment where non-audit services are delivered in an efficient and disciplined manner.
- through shared knowledge, there is a wealth of experience that enhances the quality of both non-audit and audit services.

19.4 For all these reasons, we do not believe that "pure audit players" would help to improve audit quality in the EU.

PROVIDING NON-AUDIT SERVICES TO AUDIT CLIENTS

19.5 The IESBA Code of Ethics establishes ethical requirements under which the provision of certain services is prohibited where there would be a definite conflict of interest, or a perception of one, whilst in other cases the auditors have to decide whether appropriate safeguards can be put in place to mitigate any potential threats to independence that may arise from the audit firm providing the non-audit service concerned.

19.6 In addition, we believe the audit committee should be active in determining the policy relating to the provision of other services by the auditors and in reviewing the services commissioned to ensure they are in accordance with the policy and, in overall terms, kept to a reasonable level. There would be merit in conducting an assessment of the disclosures made by audit committees in this area.

19.7 We are not persuaded of the need for a different approach with regards to the provision of non-audit services by the auditors to financial institutions as long as the procedures outlined above are fully in place and operating effectively.

19.8 We finally believe that certain environments, such as joint audit as described in our response to Question 28, could allow a more open approach in terms of the provision of non-audit services by the auditors to an audited entity. Joint audit provides an in-built independence check: one of the joint auditors will always be in a position to independently assess the appropriateness of the non-audit services rendered by the other one. As a consequence, the auditors could, on the basis of the wealth of the knowledge directly derived from the audit, render additional services that would add more value to the audited entity. That was one of the key conclusions of the Le Portz Committee report on networks' independence, following COB's initiative in France (1993). We are wondering if this should not be explored again in the interest of an internationally competitive Single Market.

#20 Should the maximum level of fees an audit firm can receive from a single client be regulated?

SAFEGUARDS TO AVOID FINANCIAL DEPENDENCY

20.1 Yes, the maximum level of fees that can be received by a firm from any one audit client should be regulated through a cap expressed as a percentage of total fee income. No audit firm should at any time be in a situation of financial dependency. We believe this to be a good principle for professional firms.

20.2 For audit clients, the new IESBA Code of Ethics sets the cap at 15% which commands support. However, we believe such a cap should be transitional and we believe it should progressively be lowered, for instance to 10 then probably 5%.

20.3 It should be noted that, if the numerator is obvious, the denominator is less so: it should be linked to the level of governance, accountability and integration of the audit organisation and move progressively from entity level to EU-wide measurement (in particular for EU registrants. See our response to Question 25 below).

#21 Should new rules be introduced regarding the transparency of the financial statements of audit firms?

A COMMITMENT TO FINANCIAL TRANSPARENCY IN LINE WITH THE PUBLIC INTEREST

21.1 Yes, as we believe that the public interest nature of the societal and economic role delegated to the audit profession is the foundation for transparency in relation to the provision of financial information. It would be paradoxical not to be transparent yourself when you are a key player in supporting the transparency of companies and financial markets! Transparency of audit firms has made progress in the European Union following the Eighth Company Law Directive, but not on financial matters. Audit firms with a commitment to serve the public interest cannot operate on a pure "private sphere" basis only. In our view, this should be re-considered.

21.2 Audit firms which demonstrate their commitment to transparency by publishing their financial statements would be expected to gain from the enhanced confidence in their governance. Audit firms with a significant number of public interest audits should both publish their financial statements in accordance with international standards and have them audited.

21.3 Mazars has led the way, as a global integrated accountancy organisation, in voluntarily producing and posting for public use jointly audited consolidated financial statements in accordance with IFRS on a worldwide basis for a number of years (since 2004/2005).

#22 What further measures could be envisaged in the governance of audit firms to enhance the independence of auditors?

SUPPORT FOR AN AUDIT FIRM GOVERNANCE CODE

22.1 Applying an EU or global audit firm governance code would strengthen confidence in firms auditing a significant number of public interest entities. It can be expected that this code would not apply to many more than ten or twelve firms.

22.2 We note that an Audit Firm Governance (AFG) Code has been prepared in the UK by the Financial Reporting Council and the Institute of Chartered Accountants in England & Wales and this, together with other relevant initiatives, would provide a sound basis for the development of an EU code.

22.3 In 2009, Mazars introduced in its Charter the possibility of having a number of non-partners/independent members sitting on its Global Governance Council and intends to implement this is in the next two years. In accordance with its international integrated partnership approach, the AFG Code or other national initiatives will be implemented by Mazars in a coordinated manner so as to ensure a consistent global governance system.

#23 Should alternative structures be explored to allow audit firms to raise capital from external sources?

COMMITMENT TO PARTNERSHIP MODEL

23.1 Mazars firmly believes that the partnership model is the best one for audit firms. It offers the protection to uphold the public interest as there is no conflict between the auditors operating in the firm and those owning the firm. In a partnership, the qualified auditors hold a majority of the voting rights and the rest is held by closely related professionals, all of them sharing the same values.

23.2 We also believe that audit activities do not require significant amounts of capital. Within a proper regulatory environment and with a sound management of the audit firm, the level of permanent capital needed to develop an audit practice is commensurate with what partners can contribute.

OPENNESS TO OTHER MODELS

23.3 We however recognise the benefits of diversity and support exploring other models which provide for a majority of the ownership rights to be held by shareholders who are not EU-registered auditors. If a more liberal approach is introduced and in order to ensure that the independence of the auditors is protected, new rules will be needed on who may own and manage audit firms. Bearing in mind that if a firm is majority-owned by outside interests, they will seek a reasonable return on any investment made. This may increase the cost of auditing for the economy. Such externally financed firms will only be viable if the EU audit market is opened up to more competition with regular tendering and audit consortia/joint audits such that potential new entrants and existing non-dominant firms have a reasonable chance of building its market share.

23.4 If, however, external capital only went to Big 4 firms, it may actually exacerbate, rather than help to alleviate, the problems associated with the current unacceptably high levels of concentration in the audit market.

#24 Do you support the suggestions regarding Group Auditors? Do you have any further ideas on the matter?

FULL SUPPORT FOR THE COHERENCE OF GROUP AUDITS

24.1 Yes, we support initiatives to ensure group auditors have access to the reports and other documentation of all auditors auditing

sub-entities of the group. We agree that group auditors should be involved in, and have a clear overview of the complete audit process, as set forth in the framework in ISA 600 (Revised and Redrafted) Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors).

24.2 Restrictions that contradict the implementation of ISA 600 in the EU should be addressed. The definitions of ISA 600 underline that "where joint auditors conduct the group audit, the joint engagement partners and their engagement teams collectively constitute the group engagement partner and the group engagement team".

24.3 If the transitional step suggested under §28.17 (see below, third bullet point) was put in place, it should not be detrimental to the coherence of group audit which should in any event be placed under the sole responsibility of the group auditors.

Supervision

#25 Which measures should be envisaged to improve further the integration and cooperation on audit firm supervision at EU level?

AN OPTIONAL EU REGISTRATION AND SUPERVISORY REGIME FOR PAN-EUROPEAN PLAYERS

25.1 Audit firms, whether legal entities or networks, with the capacity and willingness to operate on a cross-border basis in the EU, should be given the option to be registered and supervised on an EU-wide basis rather than this having to be done by each Member State in which the firm is represented.

25.2 Within such an EU-wide approach it would also continue to be important for the firm to have the necessary skills, expertise and cultural understanding to function effectively in the Member States in which it chose to operate and the approach should therefore include a country "visa" system (approval of audit firm representation and partners at country level). As a consequence, we suggest an "EU passport with country visas".

25.3 We would not support the concept of a firm being able to register and be supervised in one Member State and then being given "a passport" to operate in any other Member State as this would give room to regulatory arbitrage with the risk that firms would seek to be registered and supervised in the Member State with the least onerous requirements. As discussed above, it would still remain important that there be checks on whether firms have the necessary legal and cultural understanding and language capabilities to function effectively in their chosen markets.

25.4 In the context of such an EU-wide approach, additional consideration should be given to the status of networks. It would be important to consider, in particular, the organisation of their governance in the EU, if they decide to register at that level, and the interaction between the network and its country representations (assuming there is no legal integration). EU-wide registration and supervision imply in our view a reasonable degree of common governance and authority over the registrant's EU constituencies.

AN EU SUPERVISORY AUTHORITY

25.5 We recognise that our proposals would require the establishment of a new body at EU level for the purpose of registering and supervising firms on an EU-wide basis and that careful thought would need to be given as to how it should operate.

25.6 It may be that the establishment of an EU-wide supervisory body could best be achieved in stages with the first step being the establishment of firm- specific colleges of supervisors from relevant Member States to oversee each firm on an EU-wide basis.

#26 How could increased consultation and communication between the auditor of large listed companies and the regulator be achieved?

A CALL FOR CONSTRUCTIVE DIALOGUE

26.1 We support the view that increased consultation and communication between the auditors of large listed companies and the relevant regulators is desirable.

26.2 Such dialogue would include one-to-one links between the relevant regulators and the auditors of a given listed company to discuss specific issues related to it. These meetings should normally also involve the management or, in certain circumstances, the audit committee of the company.

26.3 In order to improve the overall effectiveness of dialogue between regulators and auditors, there may also be merit in organising group meetings between the regulator and the auditors involved in a particular sector, or appropriate sub-sectors, so as to facilitate the identification of emerging issues, proper and regular assessment of their impact and discussion on appropriate accounting and reporting treatments.

26.4 In light of the financial systemic risk involved, we believe it is especially important to increase communication and consultation between auditors and regulators in the case of leading banks, investment firms and insurance companies.

Concentration and market structure

#27 Could the current configuration of the audit market present a systemic risk?

A CONFIGURATION WITH SEVERE FRAGILITIES AND THEREFORE NOT SUSTAINABLE

27.1 Yes, we do concur with the assessment of the Commission on concentration in audit market, which was also underlined by the May 2010 independent OECD study on "Competition and Regulation in Auditing and Related Professions". The degree of concentration, particularly for EU leading listed companies, when measured by the share of the four dominant players, is not sustainable as it undermines stability and leads to a "system" with severe fragilities. The current configuration of the market not only could but does create a very concerning degree of risk in more than one respect.

27.2 First of all, the current situation with four dominant players is already highly problematic. Excessive concentration in the audit market, as in any sector, is likely to have major adverse effects on innovation, talent management and pricing. In addition, were one of the dominant players to fail, it could cause severe disruption in the audit market and result in a number of leading listed companies being left without an auditor. It would be very rash to assume that if a dominant firm were to fail the reallocation of audits would take place relatively smoothly. It would very much depend on the particular circumstances leading to the failure of that firm, the time of the year it happens, its market share in audit and the degree of interest of other firms in taking over its audits and staff teams. Therefore in our view going from four to three players would have unacceptable consequences.

27.3 There is also the risk of regulatory capture with regulators being unable to regulate the dominant players effectively if the sanctions they felt they should impose were limited because they could not countenance the situation of forcing a player to leave the market even for a temporary period. Even if regulatory capture does not exist, if the perception of it does, then many of the problems associated with an audit firm being "too big to fail" will still arise.

27.4 The consequences on the insurance system of the profession of major claims capable of affecting the survival of any dominant player should also be carefully assessed. Either the dominant audit players are basically self-insured, except for amounts that are not commensurate with a major claim, and their survival would be seriously in jeopardy, or there is significant external insurance cover and this would create an element of systemic risk affecting the insurance market.

27.5 As illustrated above, the EU is confronted with a very serious concentration issue in the audit market and the underlying "system" is in question. Nevertheless, it should be noted that this situation cannot be fully compared to the situation of the financial sector where a high degree of interdependence creates a systemic risk, namely the risk of the entire system collapsing through a domino effect. Since the systemic dimension of the audit market in the EU derives mainly from excessive concentration, and its consequences, we prefer to use the distinction dominant/non-dominant as a key distinction when referring to the audit firms. Among the non-dominant players, we believe that some are willing and ready to act at global level. As such they are better defined as alternative firms.

#28 Do you believe that the mandatory formation of an audit firm consortium with the inclusion of at least one smaller, non systemic audit firm could act as a catalyst for dynamising the audit market and allowing small and medium-sized firms to participate more substantially in the segment of larger audits?

JOINT AUDIT: A ROBUST SYSTEM FROM AN ETHICAL, TECHNICAL AND OPERATIONAL STANDPOINT

28.1 We would like first to point out that from an ethical, technical and operational standpoint, joint audit is a robust system addressing most of the concerns expressed by regulators in terms of the overall security of financial markets. Joint audit also brings significant benefits to companies, their shareholders and other stakeholders, without undue operational burden.

28.2 Since we realise that joint audit is not necessarily well known, and often caricatured, we attach as an appendix a presentation on the features of joint audit.

28.3 Based on our longstanding practical experience, we are convinced that joint audit reinforces quality assurance and independence given that the "two sets of eyes" are:

- an advanced form of particularly efficient quality control, because it is "built in" feature of the audit itself, and;
- an advanced form of governance of an audit, enhancing in particular independence and the auditors' ability to stand their own ground in the event of a difference of view with the audited entity.

28.4 From the view point of companies:

- joint audit enables them to benefit from the technical expertise of more than one firm. This is especially important given that transactions may today be very complex and given that there are substantial areas in which judgement needs to be exercised. Since the EU has chosen IFRS as its common accounting standards and since IFRS are, and should remain, principles based, the benefits of the dialogue (intrinsic to joint audit) between the company and its auditors are also significant in this area;
- joint audit enables companies to benefit from complementarities in terms of geographic coverage since it is an established fact that no audit organisation, even the biggest, has the "perfect" coverage. The relative strength of different firms and networks varies between countries especially in emerging markets and also in certain other markets;

■ joint audit offers increased diversity and therefore enhances dialogue. These qualities are, in our view, crucial to the success of an audit. Our experience has convinced us that not only is it possible to combine the strength and cultural specificities of two audit firms but also that it is efficient and fruitful, in particular when combining a dominant and an alternative player. The Single Market needs to promote principles-based harmonisation while using as an asset the wealth of its diversified business cultures;

■ the "other set of eyes" is also an opportunity to introduce on a regular basis a "fresh set of eyes" since, in a joint audit situation, the organisation of the audit naturally leads to the rotation of work on parts of the audit between the joint auditors;

■ finally joint audit helps ensure continuity of service if it is decided to rotate one firm off the audit when their appointment comes up for retender. This applies both to "staggered" and "non-staggered" appointments.

28.5 In order to guarantee the robustness of joint audit, there should be a balanced approach to the proportion of work undertaken by each firm. It is generally believed that a balanced approach would ideally, in broad terms, involve a 50:50 or 60:40 split though it is recognised that a transitional period of a limited number of years may be needed before this balance is achieved (see below). Whatever the split, each joint auditor should review and share the detailed conclusions leading to the jointly agreed audit opinion.

28.6 From an operational perspective, joint audit "simply works" and does not create any undue burden. There are practical ways to organise a smooth functioning joint audit, in particular by reference to design of the audit approach, allocation of work, planning, reciprocal reviews, sharing of conclusions, relationships with management and those responsible for governance and issuance of the opinion... We believe that joint audit has stood the operational test of time.

JOINT AUDIT: A PRACTICAL SOLUTION TO MARKET CONCENTRATION

28.7 The mandatory formation of audit firm consortia, with each including at least one alternative firm, is the most clearly guaranteed approach to reduce the excessive concentration of the audit market in the EU, and that will, as a consequence, reduce systemic risk and promote financial stability. Such a way forward requires transitional steps (see below).

28.8 The use of audit consortia in the form of joint audit is the only mechanism that so far has a proven track record in keeping market concentration among leading listed companies in a major economy lower than in other jurisdictions. Indeed, Mazars is a joint auditor of 13 CAC40 companies (compared to 6 in 1998) and 33 SBF120 companies (compared to 22 in 1998). It should be noted that over this period of time the internationalisation of the large listed companies has increased significantly and that Mazars has been in a position to invest in the development of its geographic coverage and sector expertise. Today, on that basis, Mazars in France is in a position to refer significant volumes of audit work to Mazars outside France thereby facilitating the growth of our practices, across the EU and in the rest of the world. The volume of work referred outside France is almost equivalent to the volume of work in France. Based on this experience, we support joint audit as means to stimulate investment and to create a more vibrant audit market. It eliminates the "chicken and egg" syndrome: firms do invest when there is a real possibility to progress!

28.9 Some might say that it has only benefited one alternative player. The reasons for such a situation, which in our view is a significant achievement in itself, are to be found elsewhere. A few years ago, on the basis of the joint audit system, other players were developing their market position in France. We believe it is unfortunate that two dominant players acquired three alternative players, even if one accepts the internal governance issues that existed (which in fact highlight the need for proper governance and transparency in audit firms). It must be noted that the overall EU concentration issue was overlooked at that time. We believe that other alternative players will be in a position to develop in France, in particular if a strong signal is given on how to solve the concentration issue at EU level. As of today, over 100 firms are still involved in France in the audit of listed companies (40% of the SBF250 companies mandates, compared to 4% of the FTSE350 in the UK). We are also convinced that, should joint audit be well established at EU level and not in one economy only, such a situation would create a significant cross-border leverage that would benefit more than one firm. This would facilitate the emergence of a significantly enhanced number of alternative players within the Single Market.

28.10 For a proper assessment of the French experience, it also needs to be highlighted that the regulatory environment of joint audit has been progressively improved in order to eliminate initial deviations (the Le Portz report in 1993 at the initiative of COB banned joint audit between a firm and one of its partners!) and to promote and/or regulate best practice (Loi de Sécurité Financière in 2003 gave legal backing to the balanced approach; regular reporting and questioning by AMF of remaining unbalanced situations; supervision by H3C...). Some of the criticisms that are still made of joint audit relate to past situations that do not exist anymore or that will be resolved in the near future. Today, the regulatory environment is stable and fit for purpose. Audit firms in France, dominant or alternative, as well as companies, are conversant with the joint audit framework and know how to operate it efficiently and effectively.

28.11 To a lesser extent, other markets have also had unfortunate merger developments similar to the one mentioned in §28.9. In our view, this demonstrates the crucial need for regulatory intervention at the EU level that would prevent any additional so-called "upstream" mergers or acquisitions, in the EU and also at individual country level. This would also encourage investment by, and governance developments in, alternative players.

28.12 In terms of cost for the economy, we believe that the overall cost of the audit system would not be significantly impacted by a move to joint audit. Whilst recognising, in principle, that there is an additional element of work required to perform in a joint audit (around 2.5 to 5% in our experience), the overall increase in competition would, in line with the experience in markets generally, be expected to lead to lower fees. Moreover, there would be a positive impact on quality and it would be achieved in our view at a lower cost than if alternative measures to enhance quality and/or reduce systemic risk were introduced.

SCENARIOS AND TRANSITIONAL STEPS

28.13 The European Commission should explore the means by which joint audit could be introduced smoothly, efficiently and effectively in the EU. Such a reform needs to be established on firm principles but needs also to be pragmatic.

28.14 We support the view shared by many that joint audit should be required for financial institutions because they carry financial systemic risks but we do not believe that joint audit should be restricted to them. To reduce market concentration and the risks arising when one of the dominant players fails, joint audit should also be applicable to larger listed companies other than financial institutions. This will also enhance quality assurance and therefore promote a higher level of market confidence.

28.15 We recognise that most large listed companies require global capabilities that currently only a limited number of alternative players have developed in a significant manner. Therefore, in order to foster the emergence of a greater number of additional alternative players, it may be appropriate to consider applying joint audit to the next layer of listed companies. This would encourage additional players to invest in the necessary skills and capabilities and raise the bar in terms of the size of their audit clients. A decision would need to be made as to which companies constituted this next layer, perhaps by reference to their market capitalisation.

28.16 Smooth implementation would require a number of process related issues to be decided. One would be the thresholds below which a dominant player would cease to be considered to be one, in order to clarify which firms are eligible to be part of the audit consortia for a particular audited company.

28.17 In terms of transitional steps, we would like first to suggest that the market where joint audit has been tested should not be destabilised by implementing transitional provisions that are not necessary or by enforcing alternative/dominant consortia on day one (a situation which would benefit only one player, namely Mazars). Subject to this, we suggest three kinds of transitional provisions:

- the first area of transition relates to the proportion of work to be carried out by each member of a consortium. As discussed above, we consider there should be a balanced sharing of work that there may be an initial period during which the relative share of the alternative player is being progressively increased. Based on experience, we feel that this relative share should not fall below 25% of the work during the transitional period. Below such a floor, joint audit may become ineffective;

- secondly, once the concentration in the audit market has been reduced to an acceptable level, audited companies should have the freedom to determine the composition of their audit firms consortia (i.e. not be required to include alternative players). By the time this happens, there will be a vibrant competitive market and the distinction between dominant and other players will be reduced;

- the last transitional step is more difficult, since it could trigger unexpected negative consequences, and relates to whether the alternative player should be able to participate from day one in the audit consortia without jointly signing the group audit opinion. Whilst, as discussed, we believe consortia firms should be involved fully in the group audit in order that the full benefits of joint audit can be realised, we recognise that some alternative firms may initially feel more comfortable if they are allowed, for example, to focus on auditing some important subsidiaries whilst the dominant player audits the consolidated accounts. If such an approach is allowed, it should be for a relatively short initial period before the alternative firm becomes fully involved in the group audit.

- on the first and third transitional steps envisaged above, and in general, we suggest the

establishment of a clear roadmap towards the target position and that it be placed under company governance monitoring and market regulators' supervision.

28.18 Finally, we would like to suggest that regular progress reports be prepared in order to monitor the effectiveness of the overall reform and that such reports be public and democratically debated. We believe that a comprehensive "reform package" at EU level, including joint audit, should demonstrate its effectiveness over a period not exceeding 8-10 years. As a matter of fact, we would expect much quicker results than demonstrated by the French experience, principally because of the impact of the EU-wide leverage.

#29 From the viewpoint of enhancing the structure of audit markets, do you agree to mandatory rotation and tendering after a fixed period? What should be the length of such a period?

MANDATORY ROTATION NOT AN APPROPRIATE RESPONSE

29.1 As discussed in our response to Question 18 above, we do not support the mandatory rotation of auditors.

29.2 Rotation of audit partners is sufficient to enhance independence and ensure a "fresh" approach on a regular basis. In terms of concentration, mandatory rotation of firms would only have an impact if it favoured, by way of some form of regulatory requirement, alternative audit firms. We have difficulties to see how it would work and fear that it would be disruptive and disengaging without producing the expected results. We believe other regulatory tools provide a better solution.

STRONG SUPPORT IN FAVOUR OF REGULAR AND FAIR TENDERING

29.3 We are strongly supportive of regular and fair tendering by companies. When coupled with joint audit, regular and fair tendering has an effective role to play in reducing systemic risk, promoting financial stability and reducing the current unacceptably high levels of concentration in the audit market. From a general standpoint, tendering is recognised as best practice in terms of management, internal control and governance.

29.4 It is difficult to claim markets are competitive if audits are only very infrequently subject to tender. Competition is about more than firms competing vigorously for an audit on a very occasional basis. The situation as regards the frequency of retendering varies significantly between Member States. In some markets, tendering only occurs very infrequently. For example independent research has shown that more than 70% of FTSE100 companies had not put their audit out to competitive tender for a period of at least 15 years. By contrast, more than 50% of CAC40 participants have put their audit out to tender in the past 6 years and this voluntary process has led to the change of at least one on the joint auditors for 18% of the CAC40 participants (i.e. 35% of tenders). It is interesting that two key differences between the audit market in France and that in the UK are that audit mandates are of six years duration in France compared to one year in the UK and that listed companies in France are required to appoint joint auditors. Both features may be thought to encourage

more frequent tendering, the longer mandate means that it is a more important decision for companies to get it right and hence it may receive more attention. In addition, joint audit allows companies to change one firm whilst keeping the other in place thus providing a good balance between continuity and change.

29.5 Retendering enables the audit committee of the audited company to determine which of an alternative range of offerings is best suited to its needs and it allows shareholders to understand, through appropriate disclosure, the reasons why the auditors have been chosen. More generally, were there to be a more competitive market across EU Member States this would lead to a greater level of innovation from individual firms in developing distinctive service offerings and from the profession as a whole on sector-wide issues, such as, for instance, how audit findings are reported. It would also be expected to lead to a higher level of responsiveness in terms of client service and may also lead to more competitive fees. These benefits are similar to those you would expect from any market which increased its level of competitiveness and there is no reason to suppose that the audit market is different to others in this respect.

29.6 When audits are put out to tender the tendering process should be conducted in a fair fashion with all firms with the necessary capabilities to undertake the audit being given the opportunity to submit a proposal. This may involve a two stage process with a number of firms submitting an initial proposal from which a shortlist would be prepared at which stage a full proposal would be submitted. Such an approach would help keep the costs of tendering down both for the auditors and the company concerned and indeed the final tender may benefit from ideas gained in the first stage.

29.7 We would generally expect tendering to take place at regular intervals and at least every 10-12 years (with no undue grandfathering).

#30 How should the "Big Four bias" be addressed?

A STRONGLY ESTABLISHED BIAS

30.1 There is no doubt that there is a strong "Big Four bias". It has developed over time for a variety of reasons: excessive reliance on size as a marker for quality, a general perception that it is easier to choose well established large players, marketing and lobbying campaigns in a context of inadequate overall transparency requirements and the impact of very significant alumni networks.

30.2 In addition to size, the largest players have a successful track-record in terms of promotion that has fuelled, and is still fuelling, market dominance under two combined questionable underlying assumptions: "big is better" and "too big to fail". To a certain extent, the second assumption has got stronger with increased concentration and this is a paradox because, following Enron, concentration has become even more problematic because one "big" has failed!

30.3 There is evidence that this bias has been embodied into certain contracts via restrictive clauses which are clearly unacceptable. It is difficult to assess the extent of such clauses but we believe it is significant, and this has also been underlined by the May 2010 independent OECD study on "Competition and Regulation in Auditing and Related Professions".

SUGGESTED REMEDIES

30.4 It is not easy to correct a bias that is largely based on communication and perception. Therefore, there must be strong signals where a range of measures would demonstrate the willingness to address the overall concentration issue. We suggest four ways forward.

30.5 The first measure is to ban restrictive clauses. Restrictive covenants in loan agreements or other clauses limiting who may be selected as auditor should be eliminated as a matter of priority as they are a limitation on fair competition in the audit market.

30.6 The second measure relates to public procurement policies. They should be used to encourage other firms to develop. We know that when given the opportunity alternative firms invest and strive to deliver. It would be a clear sign that public authorities encourage diversity and competition that would foster the evolution, in terms of perception first of all, but also in terms of development of those firms.

30.7 The third measure relates to regulators and supervisors who could do more to acknowledge the professional capabilities of alternative players and their commitment to meet the necessary requirements. In that respect, we would support the development of a "kite mark" at EU level to highlight which firms are capable of auditing leading listed companies in the EU (see also our response to Question 17).

30.8 The fourth suggestion relates to fair tendering. Open competition and full transparency are paramount. For example, where finance directors or members of audit committees have a Big 4 background, we would encourage them to seek to get to know the capabilities of other firms as well. As Mazars, we are committed to working to ensure awareness of our firm continues to increase with major companies across the EU.

#31 Do you agree that contingency plans, including living wills could be the key to addressing systemic risks and the risks of audit failure?

THE ROLE OF CONTINGENCY PLANS

31.1 Yes, contingency plans, including perhaps living wills, have a part to play in addressing systemic risks and the risks of audit failure. It is essential that possible contingency plans address all players in the same way to escape possible regulatory capture and that the migration of audit assignments, in case of failure, give priority to alternative firms to avoid increased concentration. It should nevertheless be noted that such plans are a second-best option. The primary emphasis should be placed on the programme of reforms we have outlined, such as joint audits and regular and fair tendering, to reduce concentration significantly in the audit market over the next few years and thus avoid the disruption should one of the dominant players leave the market unexpectedly.

31.2 Companies, especially large listed companies with a dominant firm as their auditor, should also be encouraged to consider how they would respond to a situation where one auditor would leave the market unexpectedly. The challenge of doing so would be expected to be much less if they regularly retendered their audit and/or had joint auditors.

#32 Is the broader rationale for consolidation of large audit firms over the past two decades (i.e. global offer, synergies) still valid? In which circumstances, could a reversal be envisaged?

BANNING "UPSTREAM" MERGERS OR ACQUISITIONS

32.1 What has happened has happened. We would however make the point that we do not believe the degree of consolidation that has occurred was all necessary for the purposes of serving the market. Mazars has also made significant investments in recent years and has the reach, capabilities and experience to audit leading listed companies around the world.

32.2 We do not, however, believe attempts should be made at this stage to break-up the Big 4 as that could lead to instability in the market or among companies carrying systemic risk. A break-up may, moreover, be difficult to achieve, take a long time and be subject to protracted litigation or arbitration. We believe instead that a comprehensive "reform package" should be introduced.

32.3 From now on, we believe that so-called "upstream" mergers or acquisitions by the dominant players should be carefully examined, and in most, if not all, cases rejected. Their key consequence is to destabilise other players and/or slow down their own process of consolidation or realignment. An international perspective and coordination to address this area of concern properly are needed since what at stake is the development of global capabilities.

Creation of a European market

#33 What in your view is the best manner to enhance cross border mobility of audit professionals?

HARMONISING EDUCATION AND QUALIFICATIONS TO ENHANCE MOBILITY

33.1 We support EU-wide registration and supervision of certain firms and believe this would help enhance cross-border mobility of audit professionals subject to there being safeguards to ensure that firms had the capabilities to operate effectively in the countries in which they wished to undertake audits. We believe that firms with EU-wide ambitions, and the governance that goes with such ambitions, should dedicate more time and effort to the development of mobility programs for pan-European professionals.

33.2 We would also support efforts to increase the degree of commonality in the education and training of statutory auditors across the various Member States of the European Union and would propose a review to ascertain the reasons why relatively few members of the profession in the EU who are qualified in one Member State seek to take advantage of the mutual recognition provisions to qualify in another one.

#34 Do you agree with "maximum harmonisation" combined with a single European passport for auditors and audit firms? Do you believe this should also apply for smaller firms?

SUPPORT FOR PROGRESSIVE "MAXIMUM HARMONISATION"

34.1 The suggestions outlined in the Green Paper include both "maximum harmonisation" and a European Passport for auditors. Yes, we support progressive "maximum harmonisation" as the current approach which allows Member States to interpret or implement different requirements of the Eighth Directive in different ways imposes significant costs on audit firms, and thus ultimately on audited companies, and these bear more heavily proportionately on firms other than the dominant players.

34.2 As part of the process of progressive "maximum harmonisation", a regular review should also be undertaken of whether there are important issues relating to the implementation of the EU "reform package", e.g. joint audit, regular and fair tendering or the length of mandate...

34.3 The emergence of the Single Market in audit, which we actively support, will probably

distinguish the audit firms with pan-European commitment from those focused on purely national development. The regulation should take into account both as they correspond to the development of EU in a way that respects national cultures and business communities.

34.4 But we would not support a passport system that facilitated regulatory arbitrage by allowing registration in a jurisdiction without strong enough oversight that would then enable an audit firm or auditor to work in any other EU Member State.

Simplification: Small and medium-sized enterprises and practitioners

#35 Would you favour a lower level of service than an audit, a so-called "limited audit" or "statutory review" for the financial statements of SMEs instead of a statutory audit? Should such a service be dependent on whether a suitably qualified (internal or external) accountant prepared the accounts?

AVOIDING REGULATORY BURDENS ON SMES, BUT KEEPING AN AUDIT WHEN NECESSARY

35.1 Great care should be taken before placing avoidable regulatory burdens on SMEs at present given their vitally important role in assisting growth and hence employment in the EU. With this in mind, we do not believe any company currently exempt from the need to have an audit by virtue of the "de minimis" threshold should be subject to additional assurance requirements. Audit exemption thresholds and mandating statutory audit of SMEs should continue to be an EU Member States' option within the framework of the EU Fourth Directive, and it would be inappropriate to change it at EU level.

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

35.3 SMEs face issues bearing on their financial health more frequently than large corporate, and therefore statutory audit is a way to follow-up those issues, as stated in our answer to Question 4, in the interest of the shareholders and the management, the investors and the stakeholders. As stated already in our answer to Question 15, we consider that ISAs allow for proper account to be taken of the audited entity's size and environment.

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

#36 Should there be a "safe harbour" regarding any potential future prohibition of non audit services when servicing SME clients?

"SAFE HARBOUR" DESIRABLE

36.1 Yes, there should be a less rigorous approach to restrictions on non-audit services provided to SMEs, compared to the situation with regard to their listed counterparts, as they have less internal resources and thus the need for more external assistance and this can often be most easily and effectively provided by their auditor who is their primary business advisor. Moreover, the requirements do not need to be as stringent given that the owners and the managers are generally the same in SMEs, or closely linked to each other and in view of their less systemic role in the economy as individual companies.

#37 Should a "limited audit" o "statutory review" be accompanied by less burdensome internal quality control rules and oversight by supervisors? Could you suggest examples of how this could be done in practice?

DIFFERENTIATING ACCORDING TO AUDIT ACTIVITIES

37.1 We would answer the question in more general terms, namely that the internal quality control rules and the oversight by supervisors should be less burdensome for audit firms not dealing with public interest entities.

International co-operation

#38 What measures could in your view enhance the quality of the oversight of global audit players through international co-operation?

SUPPORT FOR CO-ORDINATION AND "MUTUAL RELIANCE"

38.1 An EU-wide system of registration and supervision, as proposed by us, would enhance the quality of oversight of global audit players if most of the major firms were within its remit as would greater co-operation between national oversight bodies through extending the co-ordination role of EGAOB. We also support the initiatives discussed in the Green Paper which are currently being undertaken by the European Commission in the area of "mutual reliance".

GREEN PAPER

Audit Policy: Lessons from the Crisis

Appendix: Implementing joint audit, the experience in France

1 Introduction

1.1 The French Code of Commercial Law requires the appointment of two statutory auditors by all companies which are required to prepare and publish consolidated financial statements. In practice, the joint audit requirement extends to a very large part of the market comprising public interest entities (PIEs). As an example, all CAC40 companies (with the exception of ArcelorMittal whose registered office is not located in France) are subject to joint audit.

1.2 The legal requirement is for at least two statutory auditors and a larger number is possible. Some CAC 40 groups have opted for three joint auditors: BNPParibas has had three joint auditors since 1994 as have Natixis and GDF Suez since the creation of their current structures following mergers.

2 Audit appointments: simultaneous or "staggered"

2.1 In France, audit appointments are effective for a six year period. The auditors are appointed by shareholders by resolution at a general meeting. There is no legal requirement for the dates of appointment of both audit firms to coincide. Some examples of "staggered" appointments exist: Axa, Lagardère, Pernod Ricard. In most cases, however, and for historical reasons, the dates of appointment of both audit firms do coincide. This means that both firms may be subject to tender at the same time.

3 Scope of joint audit within groups covered by it

3.1 Within large groups, joint audit thus applies by law at least to the ultimate holding company (for the audit opinion in respect of both its individual entity and consolidated financial statements) and to all their French subsidiaries subject to a separate requirement for preparation of sub-consolidations. Within such groups, it is, however, common for joint audit to be extended in practice to material subsidiaries in France and if felt appropriate abroad as well, even if they are not subject to any separate requirement for preparation of sub-consolidations. The split of work between the joint auditors is designed to apply to the whole range of the audited group's operations.

4 Implementation of joint audit with regard to the consolidated financial statements

4.1 The audit of a group's consolidated financial statements may be divided into four key phases:

- the audit of the accounts of consolidated subsidiaries;
- the audit of the parent company's accounts;
- the audit of the consolidation process; and
- the audit of the published financial winformation.

4.2 The consolidation scope of the largest groups may extend to more than 1,000 companies worldwide. In practice, the subsidiaries of such groups are classified within

several categories reflecting their size and the importance of their contribution to the group, expressed in terms of parameters such as risk exposure, profit or loss, total assets, revenue etc. The extent of the audit procedures applied is then graduated for each category.

5 Allocation of work on the different phases of the audit

5.1 For the accounts of consolidated subsidiaries, for joint as for single audit, the parent company's auditors are deployed as widely as possible over its subsidiaries worldwide.

5.2 The allocation of subsidiaries to one or other of the joint auditors may be based on business, product or geographical location criteria. For business/product criteria, which is increasingly the method of allocation used for diversified groups, each joint auditor is deployed over one or several of the group's businesses for which it covers all the entities and geographical locations involved. When geographical criteria are used (countries, zones etc.): each joint auditor is deployed over one or several territories, again in respect of which it covers all the entities involved. In the case of major groups, the joint audit approach is often applied within each of the group's businesses in order to ensure oversight by "two sets of eyes" for each business line.

5.3 For the parent company's accounts the audit work is split between the two, or sometimes three, joint auditors on the basis of the applicable audit cycles and/or corporate functions. Examples of audit cycles for an insurance company might be investments, technical provisions, reinsurance accounts etc; for a bank: loans, refinancing, ALM, investment portfolio, equity etc; for an industrial company: production/inventory management, purchases/payables, sales/receivables etc; and in the case of corporate functions: tax, IT, HR etc.

5.4 For the parent companies of major groups, the audit cycles may coincide with the group's business structure. Whatever the approach, the joint auditors ensure that their respective work allocations cover all the audited entity's material balance sheet and income statement items.

5.5 Turning to the audit of the consolidation process, the audit work is split between the joint auditors either by topic (deferred taxes, finance lease entries, statement of changes in equity, elimination of intercompany transactions and balances etc); by business (review of the consolidation entries for all of a particular division's entities); or by geographical zone (review of the consolidation entries for all of a particular country's entities). The joint auditors ensure that their apportionment of work provides complete coverage of the consolidation. In certain instances, the audit of the consolidation process may be mainly, or more rarely completely, performed by a single joint audit firm within the framework of the overall balanced split of the audit work for the group. If so, the other joint auditor(s) perform(s) a peer review.

5.6 The allocation of work in relation to the audit of the published financial information is similar to that for the foregoing phase.

6 Overall allocation of work between the joint auditors

6.1 Whatever the basis of allocation, balance between each of the joint audit firms is sought as provided for by the applicable French auditing standard (NEP 100) which stipulates that the audit work required should be split between the joint auditors on a balanced basis reflecting criteria which may be quantitative or qualitative in nature. If a quantitative basis is used the split may be by reference to the estimated number of hours of work required for performance of the audit whereas if a qualitative basis is adopted the analysis may be of the levels of qualification and experience of the members of the audit teams. Where a group entity is audited by a firm that is not one of the joint audit firms, the third party auditor's work is supervised by one of the joint audit firms.

6.2 The overall balance sought for the four phases is reflected in the split of the audit fees. The objective will normally be for each joint auditor to receive between 40% and 60% of the total fees. A split of up to 70% / 30% may be accepted. Splits of < 30% for one of the joint auditors, and > 70% for the other, may be tolerated but are monitored by the AMF (the French Securities Markets Authority) with a view to progressively readjusting them.

7 Determining the annual audit approach

7.1 The annual audit approach is jointly determined and includes preparation of a joint risk-based audit plan which involves: addressing both fraud risk and the other risks of material misstatement; assessing the audited entity's control environment; identifying the areas of risk and determining materiality; and setting out the audit procedures required for proper completion of the engagement. A single set of joint audit instructions (i.e. a manual of the audit procedures to be applied on a coordinated and homogenous basis to the group's subsidiaries by each joint audit firm or network) is issued.

7.2 In practice, each of the joint audit firms contributes to the above documents which are consolidated prior to joint approval of the overall audit approach. The audit approach is almost invariably the subject of a combined annual presentation to the group's audit committee by the joint auditors. The requisite engagement letters are also jointly signed.

8 Levels of group audit reporting

8.1 Up to four levels of group audit reporting are distinguished: individual entities; geographical zones or business lines (aggregating several entities); group financial and general management; and corporate governance.

8.2 *For individual entities* the auditor in charge of each individual entity, based on the allocation of entities described above, is responsible for reporting the audit conclusions by way of audit summary meetings with the local management and for expressing an audit opinion on the entity's consolidation package. In the case of very material entities, or of entities for which the audit points identified are liable to be material at the level of the group, the auditor in charge of the entity provides the other auditor with information enabling a joint position to be

determined and, in these circumstances, the other joint auditor may also attend the entity's audit summary meetings.

8.3 *For geographical zones* or business lines each audit firm reports on the areas it has covered, and audit points it has noted, in the presence of, and in concert with, the other. Technical or sensitive issues are discussed in advance by the joint auditors in order to establish a common viewpoint.

8.4 *For group financial and general management* the joint auditors prepare and present a combined summary of their audit findings. Audit points are again discussed in advance in order to establish a shared stance.

8.5 *For corporate governance* the designated representatives of each joint audit firm attend the Board of Directors' meeting at which the group's annual and half-yearly financial statements are authorised for issuance, as well as the related meetings of the group's audit committee; and they speak with a single voice.

9 The group audit opinion on a joint audit

9.1 The joint auditors prepare a joint audit report addressed to the group's shareholders which is presented during its Annual General Meeting. The audit opinion expressed is a single joint opinion. Special provisions exist in the event of disagreement between the joint audit firms as to the formulation of their audit opinion. In practice, they are only very rarely needed. As regards the specific circumstances of technical consultations relating to changes in the regulatory environment, such as new or revised IFRS, exceptional transactions, divestments, acquisitions or restructuring, the consultations are generally prepared and performed by a single joint audit firm. The conclusions reached are shared with the other joint auditor as a basis for expressing a shared position jointly presented to the audited entity. This approach avoids duplication of the time devoted to analysis and research yet still ensures a dual assessment of the conclusions to be reported.

10 Joint and several responsibility

10.1 Each joint auditor is jointly and severally responsible for the audit opinion provided. The exercise of that joint and several responsibilities implies that each joint auditor performs a review of the work performed by the other. The sharing and harmonisation of the audit conclusions and the audit presentation prepared for the audited entity, as already described, constitute the first step in that review. In addition, the audit summary memoranda and working paper files for the engagement are subject to reciprocal peer review in accordance with the applicable French auditing standards. The reciprocal peer review, which leads to the issuance of the joint audit opinion, must be documented for each engagement. In practice, the review is performed twice yearly at the time of issuance of the audit opinions on the group's half-yearly and annual financial statements.

11 The value added by joint audit / audit consortium

11.1 From the perspective of the regulator and the market, joint audit:

■ reinforces both audit quality assurance and the independence of the auditor, with the "four eyes principles" that create permanent and in-built quality control on a real time basis;

■ reinforces the auditors' ability to stand their ground in the event of disagreement with the audited entity, and this point can be critical in case of a major crisis, be it due to macro-economic or structural market issues or to issues inherent to the audited entity itself;

■ provides for reciprocal control of, in particular, the acceptability of non-audit services provided by the auditors and thus results in de facto reinforcement of audit independence;

■ provides an opportunity for audit rotation of audit cycles, businesses or entities, the split of work between the joint auditors being more often interchanged or otherwise modified during the course of an audit mandate, thus resulting in rotation of audit cycles;

■ encourages the development of new players who would not yet have comprehensive geographic coverage or industry expertise at their disposal, thus reinforcing competition for the audit of major groups.

11.2 From the perspective of companies in the market, joint audit:

■ enables companies to benefit from the technical expertise of more than one firm: this is of particular value in the presence of complex reporting frameworks (such as IFRS or US GAAP), or in the case of complex businesses (such as banking, insurance, long-term contracts or businesses applying actuarial techniques), for which any one firm cannot necessarily provide the same auditing quality in all the countries in which the audited group is present;

■ serves "Coopetition" (cooperation + competition) between joint auditors resulting in improved quality of service, i.e. the ability (1) to have recourse to each of 2 firms depending on their technical skills and geographical coverage, (2) to replace, during the course of an appointment, a firm for a particular group entity (e.g. in response to an issue of quality affecting a particular member of the firm's network, or to the withdrawal of a firm's licence for a particular country) without harming the consistency of a coordinated approach to the audit of the group, and (3) to obtain competitive tenders from each joint auditor in the event of increases in audit scope during the course of the group audit appointment (whether as a result of acquisition, new business creation or additional regulation);

■ leads to real debate on technical issues, in particular those resulting from regulatory changes, and offers additional scope for benchmarking;

■ allows smooth and sequenced rotation of audit firms when deemed appropriate, so as to retain knowledge and understanding of group operations in a way that minimises the disruption caused when a single audit firm is changed.

12 Cost of joint audit

12.1 Certain work performed, and time spent, by the auditors are specifically brought about by the joint audit approach. These are principally: attendance of each joint audit firm at audit summary meetings with the audited entity and

at meetings with corporate governance bodies; coordination of the overall audit approach; reciprocal peer reviews; coordination on technical issues; and sharing of key audit issues.

12.2 Each auditor performs procedures specified in the standard of professional practice, including:

- understanding its environment;
- assessing whether there is a risk that the financial statements taken as a whole contain material misstatements;
- determining the materiality threshold(s);
- defining and documenting the audit approach in a concerted fashion; conducting analytical procedures that allow the overall consistency of the financial statements to be reviewed;
- reviewing the procedures performed by the other joint auditors;
- and ensuring that the information provided at the time the financial statements are approved presents a true and fair view of the audited entity and is consistent with those financial statements.

Most of these tasks are highly value adding as they are dedicated to the "professional scepticism" necessary to express an audit opinion.

12.3 Our own experience suggests that the specific work described on the previous page ranges from 2.5 to 5% of the total audit cost for a group, as joint audit adds about one fourth to one third to the coordination time required for a group audit, and group audit coordination itself represents about 10 to 15% of the total audit cost for a major group (the balance representing the audit time devoted to individual entities). This additional cost must be compared with the additional security provided by "four eyes principles" and by the reciprocal review.

12.4 Research on the topic of group audit budgets does not disclose any notable difference between France and other main European Union countries. In practice the additional cost is borne by the audit firms involved rather than being passed on to the audited entity. Joint audit also creates a more competitive environment that is conducive to a reasonable price/volume balance for the market. The additional cost implied by joint audit remains very limited compared to alternative measures to diversify the audit market.

13 Clarified and redrafted ISA 600 and joint audit

13.1 The reference to joint audit has always been included in the ISA 600, taking into account the practice of it in some countries. However, the ISA 600 does not provide details about this practice.

13.2 However, the Clarified ISA 600 clearly reinforces this reference as the definition of the Group Engagement Partner includes reference to joint audit (both in the glossary of terms and in the ISA) . Joint audit is a way to achieve, completely and efficiently, the requirements of the standard, including an enhanced audit strategy focused on the group risks, with exercise of professional scepticism.

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Impression sur papier éco-responsable et Imprim'vert

Mazars - Communication Groupe - Green Paper EN 01/11

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