



Paris La Defense, April 20, 2009

Public Company Accounting Oversight Board

Office of the Secretary

1666 K Street, N.W.

Washington, DC 20006, USA

Attention: J. Gordon Seymour, Secretary, and the Members of the Board

Re: PCAOB Rulemaking Docket Matter No. 025 - Mazars comments on PCAOB proposed Auditing Standard on Engagement Quality Review - PCAOB Release No. 2009-001 March 4, 2009

Dear Sirs,

Mazars is a unique integrated partnership of European origin, specialized in audit, accounting, tax and advisory services. It assembles more than 10,500 professionals operating in 50 countries, led by more than 560 partners, and there are 12 additional countries where Mazars is present through correspondents and joint ventures (see Mazars annual report and its IFRS joint-audited consolidated financial statements on <http://www.mazars.com>). Moreover, via the Praxity Alliance of which Mazars is a founding member, Mazars can access the skills and expertise of a further 13,800 professionals in another 23 countries, all of whom possess a common desire to adhere to strong quality guidelines and a collective determination to exceed technical and ethical standards.

In North America, Mazars has a long standing presence via Mazars USA (created in 1988/1989, and registered with the PCAOB). As a natural extension of its development strategy, Mazars formed several joint ventures with members of Moores Rowland International (MRI) since 2000 to assist its clients in various corners of the world. At the end of 2006, Mazars and the American members of MRI, 5 well known US firms, decided to optimize their relationship, and signed an agreement to launch a new international alliance between independent structures, named Praxity, an international non-profit association registered in Belgium, which became operational in 2007.

As at 31 December 2008, Praxity had 109 participating firms in 72 countries, with more than 24,800 personnel and an aggregated fee income of US\$ 3.2 billion (Euro € 2.3 billion), including Mazars Group. Praxity is the world's largest alliance of independent accounting firms and is ranked in 8th position overall (International Accounting Bulletin's survey of Networks and Associations).

We want to preface our comments with general consideration that we fully support implementation of rules strengthening the audit quality, and the contribution of these rules to restore the public confidence in financial reporting and in the world's capital markets. Mazars is therefore fully committed to support PCAOB initiative, as well as those of IFAC, European Commission and other key European or national regulators or oversight that have been already doing good work and are implementing stronger controls in these areas of common concern.

We are pleased to submit this letter in response to the PCAOB's invitation to comment on its proposed Auditing Standard on Engagement Quality Review.

We respectfully submit our detailed comments below. We commend the Board for the transparency of its rule deliberation process.

Q1 Page 8: Should the standard require an EQR for other kinds of engagements performed according to PCAOB standards? If so, what types of engagements should be included and what should an EQR of such engagements entail?

The original PCAOB's proposal required an EQR for all engagements performed in conformity with the PCAOB standards. These engagements included: integrated audits, audits of financials statements only, interim reviews, and other audit and attestation engagements. Some of the comments received questioned the practicality of applying the same EQR standards on engagements such as those referenced above that are very distinctive in nature. Based on this feedback, the PCAOB has now limited the scope of its re-proposed EQR standards to audit and interim review engagements. The issue raised here is to determine whether this re-proposed EQR standard should also be applicable to other kinds of engagements performed under PCAOB guidance.

Mazars subscribes to the idea that the standard should require an EQR for other kinds of engagements performed according to PCAOB standards. Mazars believes that the EQR standards should be crafted in such a way that they could be applicable on other PCAOB engagement-types such as attestations and reviews.

For instance, initially, the PCAOB developed AS 5¹ to be applicable to large corporations. Then, the PCAOB staff subsequently provided direction to auditors on scaling the audit based on the company's size and complexity. The new staff guidance² published on January 23, 2009, explains how auditors can apply the principles in AS 5 to audits of smaller, less complex public companies. Another example is COSO which originally issued guidance on Internal Control³ in 1992. This guidance provided principles-based guidance for designing and implementing effective internal controls. It established a common definition of internal control that services the needs of different parties for assessing and improving their control systems. Subsequently, COSO issued other guidance⁴ in 2006 geared towards smaller public companies.

Mazars believes that the PCAOB could use the same approach as shown in the two examples above.

¹ Auditing Standard No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements ("Auditing Standard No. 5")

² Staff Views – An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements: Guidance for Auditors of Smaller Public Companies.

³ COSO - Internal Control — Integrated Framework (1992)

⁴ COSO - Internal Control over Financial Reporting — Guidance for Smaller Public Companies (2006)

The PCAOB could develop one set of EQR standards (full framework) that are scalable and applicable to all types of PCAOB engagements (audit, review, and attest services). These EQR standards should be principles-based, cost-effective, risk-based, and customizable for application on all types of PCAOB engagements.

Q2 Page 9: Is the objective in the re-proposed standard appropriately formulated? Does it articulate the purpose of an EQR?

Mazars believes that the objective in the re-proposed EQR standard as currently stated could be simplified and broken down into two pieces for clarity purposes:

“The objective of the engagement quality reviewer is to perform an evaluation of the significant judgments made by the engagement team and the conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report, if a report is to be issued, in order to determine whether to provide concurring approval of issuance.”

The simplified objectives of the engagement quality reviewer would be as follows:

- 1) To perform an evaluation of the significant judgments made by the engagement team and the conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report, if a report is to be issued; and
- 2) To determine whether to provide concurring approval of issuance.

Mazars supports the inclusion of an objective evaluation provision in the re-proposed EQR standard to determine whether the stated EQR objective was met.

Q3 Page 9: Will this objective contribute to a more thoughtful and effective EQR?

In our May 12, 2008 comment letter on the original proposed EQR standard (page #3), we urged the PCAOB to seek rapprochement with the IAASB in developing EQR standards and future auditing standards. This consultation is in progress. On February 27, 2009, the IAASB announced that it has completed its Clarity Project⁵ which was started in 2004 as a comprehensive program to enhance the clarity of its International Standards on Auditing (ISAs). Thirty-six ISA standards in all were revised or restated.

The improvements derived from the Clarity Project broadly consisted of the following:

- 1) Identifying the auditor’s overall objectives when conducting an audit in accordance with ISAs;
- 2) Setting an objective in each ISA and establishing the auditor’s obligation in relation to that objective;

⁵ A complete history of the Clarity Project can be found at Clarity Center on the IAASB website www.ifac.org/IAASB

- 3) Clarifying the obligations imposed on auditors by the requirements of the ISAs and the language used to communicate such requirements;
- 4) Eliminating any possible ambiguity about the requirements an auditor needs to fulfill; and
- 5) Improving the overall readability and understandability of the ISAs through structural and drafting improvements

As shown above, the first two benefits of the Clarity Project relate to the objectives of the ISA standards from the auditor's perspectives. Mazars believes as the IAASB does that a clearly stated objective is beneficial to the auditor because it leads to a more effective and efficient EQR process. A clearly formulated objective in the re-proposed EQR as shown above could lead to a more structured and thoughtful audit process.

Q4 Page 15: Is it appropriate to explicitly require a reviewer from within the firm to be a partner or an individual in an equivalent position?

Mazars believes that it is appropriate to explicitly require a reviewer from within the firm to be a partner or an individual in an equivalent position. This can serve several purposes:

- a) Meet a firm's quality control requirement (ISQC 1);
- b) Expose a partner or an individual in an equivalent position to new types of engagements (shared knowledge);
- c) Facilitate partners' rotation requirements (independence issue);
- d) Serve as training ground for young and promising partners;
- e) Serve as a performance evaluation tool for partners.

The level of partner or equivalent partner position is the one that assumes competence, qualification, and authority, which are all variables attached to an effective reviewer.

Q5 Page 15: Should the standard allow qualified accountants who are not employed by an accounting firm to conduct the review?

In Mazars' opinion, this proposed EQR standard should not allow qualified accountants who are not employed by an accounting firm to conduct the review. Allowing external qualified accountants to perform EQR could hamper the existing independence rules (mandatory rotation of engagement partners and independent reviewers) and increase the EQR monetary and administrative costs. It may also limit the potential growth of partners for whom the EQR is used as a learning ground or stepping stone for gaining industry knowledge. It may also pose certain risks to firms' quality control systems to bring in outsiders who lack the culture and values shared by firms' employees.

However, Mazars would welcome any PCAOB's quality control program that would allow qualified accountants who are not employed by an accounting firm to conduct a peer-review of the quality control programs of firms. This would help the firms in their quest for continuing improvement.

Q6 Page 15: Should the standard prohibit the engagement partner from serving as the reviewer for a period of time following his or her last year as the engagement partner? If so, is two years sufficient, or should it be extended?

Mazars agrees with the idea that there should be a "cooling-off" period from the time an engagement partner completes his/her required rotation on an audit or interim review engagement and the time when he/she can resume any EQR activity on the same audit engagement.

We believe that a "cooling-off" period of 2 years, in-between an audit engagement and an EQR engagement, is adequate and reasonable. This proposal is also consistent with ISA 290.154(b)⁶ that recommends a 2-year lapsing period for audit engagement partners and EQ reviewers who have completed their normal rotation requirements of 7 years to resume any audit work on the same audit client.

Q7 Page 20: Are the descriptions of the scope and extent of EQR procedures contained in the re-proposed standard appropriate?

In general, the descriptions of the scope and extent of EQR procedures as re-proposed here appear adequate. Serious efforts were made in rewriting the proposals so as to allow the EQ reviewer to perform a thorough review or take a second look at the audit or interim review engagement without it appearing as a re-audit or a second interim review. There is a continuing focus on the audit and interim review greatest risks, on evaluating significant judgments made and conclusion reached by engagement team, and on evaluating engagement documentation.

Will the performance of these procedures result in a high-quality EQR? If not, how should these procedures be revised?

We believe that in general, the performance of these procedures could result in a high-caliber EQR. However, we would like the Board to consider other factors that may impact the EQR process such as:

- a) Joint-audits – There is a trend towards joint-audits in Asian countries, and joint-audits are also called for public or financial sector audits, or in some exceptional cases, such a recent fraud case in India, where two firms were engaged to re-audit the company investigated for fraud;
- b) Evaluation of supervision, review, and approval process during audit engagements;
- c) The proportionality of EQR review time versus the actual audit or interim review time.

⁶ IFAC Code of Ethics § 290

The PCAOB itself in its recent inspection report⁷ (page 20) raised (b) and (c) issues as follows:

...“Certain deficiencies raised questions about the sufficiency, rigor, and effectiveness of the supervision and review activities of engagement managers and partners, including the thoroughness with which they reviewed audit documentation. In some cases, it appeared that the engagement partners had not devoted sufficient attention to their responsibilities, or their commitment to engagements did not appear to correlate with the risk that the engagements presented. Certain of the deficiencies described above were in areas that required management’s most difficult or complex judgments, and thus were in areas where the partners and managers should be devoting significant attention”...

“In addition, some of the deficiencies were in areas that ordinarily would be reviewed by the concurring review partner. Further, in some instances, the inspection teams observed that the concurring review partner for an audit for which there were deficiencies committed a relatively small amount of time, compared to the firm’s overall commitment to the audit. These observations suggest that there may have been weaknesses in the applicable firm’s policies and procedures, or the application of them, in this important area”....

Q8 Page 20: Are the specifically required procedures appropriately tailored to reflect the difference in scope between an audit and an interim review?

We believe that the specifically required procedures are appropriately tailored to reflect the difference in scope between an audit and an interim review.

Q9 Page 20: Do the specifically required procedures sufficiently focus the reviewer on areas of highest risk? Are there other procedures that should be required?

Mazars believes that the specifically required procedures adequately focus the reviewer on areas of highest risk. However, Mazars would like to encourage the PCAOB to find ways to supplement these proposed procedures with certain specific and limited procedures that touch upon some of the most challenging audit areas covering:

- a) Auditing fair value measurements
- b) Auditing accounting estimates
- c) Auditing the adequacy of disclosures
- d) Auditor’s consideration of a company’s ability to continue as a going concern, etc

⁷ Report on the PCAOB’s 2004, 2005, 2006, and 2007 Inspections of Domestic Annually Inspected Firms / PCAOB Release 2008-008 December 5, 2008

http://www.pcaobus.org/Inspections/Other/2008/12-05_Release_2008-008.pdf

The idea is to alert the EQ reviewer about challenging audit areas so that he/she must exercise extra EQR due diligence without it being considered re-audit or second review engagement. The current financial crisis has led several accounting and auditing standard-setters to publish alerts that provide directions to accountants and auditors on ways to treat certain subjects. The IAASB and the PCAOB could also issue alerts directed towards EQR issues.

Mazars would support clarifications of the terms “read”, “review”, and “evaluate” used throughout this re-proposed standard.

Q10 Page 24: Is the standard for the engagement quality reviewer’s concurring approval of issuance appropriately described in the re-proposed standard? Is the first condition appropriately tailored to reflect the difference in scope between an audit and an interim review?

Per the PCAOB, the reviewer “*may provide concurring approval of issuance only if, after performing with due professional care the review required by this standard, he or she is not aware of a significant engagement deficiency.*” A “*significant engagement deficiency*” is defined as any of these four conditions:

- 1) *The engagement team failed to obtain sufficient appropriate evidence in accordance with the standards of the PCAOB;*
- 2) *The engagement team reached an inappropriate overall conclusion on the subject matter of the engagement;*
- 3) *The engagement report is not appropriate in the circumstances; or*
- 4) *The firm is not independent of its client.*

Mazars believes that the standard for the engagement quality reviewer’s concurring approval of issuance as proposed is not appropriately described. We agree with the idea that the reviewer must perform his/her review with such degree of due professional care to be able to concur in the issuance of the audit report. However, it appears that in order to conclude that the first condition is possibly met, (1) *the engagement team failed to obtain sufficient appropriate evidence in accordance with the standards of the PCAOB*, the reviewer must perform a level of review of working papers that could be considered too close to a re-audit. Said differently, it appears that this condition, in order to pass the “muster test”, requires higher level of review procedures than those proposed above (scope and extent of review procedures).

We propose that the reviewer be required to explain and document the basis for arriving at any of his/her conclusions.

Q11 Page 26: Are the documentation requirements in the re-proposed standard appropriate? If not, how should they be changed?

Mazars believes that the documentation requirements in the re-proposed standard are less specific than the original ones. The original proposal provided that the engagement documentation should indicate:

- 1) who performed the review;
- 2) the areas of the engagement subject to the review;
- 3) the procedures performed by the reviewer;
- 4) when the review procedures were performed;
- 5) the results of the review procedures; and
- 6) whether the engagement quality reviewer provided concurring approval of issuance.

The new proposal (on page 28) states that, the documentation should “contain sufficient information to identify”:

- 1) who performed the review;
- 2) the documents reviewed;
- 3) the significant discussions held during the review;
- 4) the date that the reviewer provided concurring approval of issuance; and
- 5) if the reviewer did not provide concurring approval of issuance, documentation of the reviewer's reasons for not providing concurring approval of issuance.

A line-by-line comparison between the original and the new proposal shows that the latter eliminated the old items # 3 and # 5 that call for indicating the EQR procedures performed and the results obtained. We do not see how removing these two items enhances the effectiveness of the EQR procedures. In fact, these two items clarify the EQR process.

Moreover, the new proposal leaves plenty of room to interpretations by referring to the concept of “sufficiency of information” as a threshold to assess the adequacy of documentation. This situation raises the issue of how to assess the reasonableness of the documentation from a qualitative and quantitative point of view. What scale does the reviewer use to evaluate his/her documentation? We all agree that the EQR shall be both risk-based and principles-based. However, at a minimum an effective EQR guidance should require disclosures by reviewers of the EQR procedures used and the results obtained.

Mazars agrees with the Board that:

- 1) the reviewer and the engagement team should determine the appropriate timing for the review procedures
- 2) the statement that the reviewer should complete his/her review before providing concurring approval of issuance is abundantly clear throughout the proposed EQR and no additional explicit statement is warranted

Mazars also generally agrees with the Board in regard to the effective dates for implementing this re-proposed EQR standard. It appears that the start period proposed, subject to SEC approval, is reasonable:

- a) EQRs of interim reviews - fiscal years beginning after December 15, 2009
- b) EQRs of audits - fiscal years ending on or after December 15, 2009

We hope that our comments above will be helpful and we remain available for further considerations. Please feel free to contact us again if you would like to discuss our submission further.

Yours sincerely,



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Risk Management & Audit Quality