



Paris La Défense, May 12, 2008

**PCAOB**

**Mr. Gregory Scates, Deputy Chief Auditor**

**Mrs. Keesha Campbell, Assistant Chief Auditor**

1666 K Street, NW

Washington, D.C. 20006

Re: Rulemaking Docket Matter No. 025 - Request for Public Consideration and Comment on Proposed Auditing Standard - Engagement Quality Review (“EQR”) and Conforming Amendment to the Board’s Interim Quality Control Standards

Madame, Sirs,

Mazars is an international organization of European origin, specialized in audit, accounting, tax and advisory services. Its integrated partnership assembles more than 8,000 professionals operating in 46 countries. Moreover, via the International Praxity Alliance of which Mazars is a founding member, the group can access the skills and expertise of a further 15,000 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.

Mazars thus asserts itself as a strong challenger to the international market; thanks to its multicultural structure and complete range of services, the group is able to offer flexible, tailored solutions to large multinational firms and to those SMEs it assists in their development, as well as to high net worth individuals.

As of the 31<sup>st</sup> of August 2007, its turnover was 657 million euros. However, as of the 1<sup>st</sup> of January 2008, its pro forma turnover, taking into account those entities which have joined the group since the 1<sup>st</sup> September 2007, was approximately 675 million euros.

We are pleased to submit this letter in response to the request for the request for public consideration and comment from the PCAOB on its Proposed Auditing Standard – Engagement Quality Review and Conforming Amendment to the Board’s Interim Quality Control Standards.

We will proceed with our comments in two ways:

- (1) General Comments on the Proposed Auditing Standard, and
- (2) Specific Comments with Responses to the PCAOB’s 11 Questions.

## 1 General Comments on the Proposed Auditing Standard

Mazars agrees with the PCAOB that the timing is right to focus on another pillar of the audit quality: the engagement quality review. The International Federation of Accountants (IFAC) already focused on this issue in its standards ISQC1 and ISA 220, so convergence could certainly be found on the objective and principles of the engagement quality review, in order to achieve efficiency of the roll-out of the standard in a global organization.

Mazars also generally agrees with the proposed PCAOB EQR standard as follows:

- there should be only one EQR standard for audit engagements performed under the standards of the PCAOB,
- the EQR reviewer should not only be competent but should meet attributes of independence, integrity, and objectivity,
- the EQR should be considered as a process relying on a risk-based approach and requiring the engagement reviewer to focus on the significant judgments made by the engagement team,
- the review of the engagement documentation borrows requirements of AS3, Audit Documentation, (so that there is no need to re-invent the wheels with regards to new documentation requirements).

## 2 Specific Comments with Responses to the PCAOB's 11 Questions

### 2.1 Question 1: The proposed standard does not explicitly state an overall objective of an engagement quality review. Should this standard state such an objective? If so, what should be included in the objective?

In general, Mazars agrees with all three aspects of Section A (page 7-8) regarding engagements for which an EQR is required: (1) The proposed EQR standard should be required for all engagements performed in accordance with the standards of the PCAOB (2) There are potential benefits to be gained from performing an EQR in order to comply with various attestation engagements (audits of financial statements, audits of internal control over financial reporting, and reviews of interim financial statements), and (3) This proposed EQR standard should be applicable to all registered accounting firms, newly registered and AICPA SECPS registered as of 2003.

Mazars suggested that the proposed auditing standard explicitly state an overall objective of an EQR or at a minimum establish specific requirements and provides clear directions applicable for EQR engagements. Establishing an overall objective of an EQR will serve as a roadmap enabling audit practitioners to apply the proposed EQR requirements in an efficient and effective manner. The vast majority of accounting and auditing standard-setters are hearing the complaints coming from the business and investment communities, academia, and public-at-large about the difficulties of understanding and applying certain new accounting and auditing standards. For instance, the PCAOB AS5, which was approved by the SEC on July 25, 2007 and which superseded AS2, had as one of its major overall objectives to get the auditors to assess risks and to focus on the greatest risks.

We believe that the overall objective of an EQR engagement should be to evaluate the significant judgments made by the engagement team and the conclusions reached in forming the overall conclusion on the engagement.

**2.2 Question 2: Should an engagement quality review be required for all engagements performed in accordance with the standards of the PCAOB? If not, when should an engagement quality review be required?**

Mazars believes that the proposed EQR which would supersede the PCAOB's interim concurring partner review requirement and would amend its interim quality control standards is an integral part of the overall quality control of a registered accounting firm and as such it should be required for all engagements performed in accordance with the standards of the PCAOB (audits of financial statements, audits of internal control over financial reporting, and reviews of interim financial statements).

Often referred reporting engagements will involve the component auditor confirming that their work has been conducted in accordance with PCAOB standards. To maintain this level of reporting, the introduction of the proposed standard would prompt the introduction of EQRs for component audits. However, in such circumstances second-sight judgments are best provided by instructing offices rather than through the involvement of a new partner at the component level by the reporting office. We recommend that the proposed standard should not apply by non-material component audits.

Given the extensive use of the ISA standards worldwide and the trend towards harmonization of accounting standards (US GAAP and IFRS), the PCAOB should consider adapting or harmonizing its proposed EQR standard to/with the international auditing standards so as to permit its use even by non-registered accounting firms (as a best audit practice).

**2.3 Question 3: Are the qualifications of an engagement quality reviewer appropriately described in the proposed standard? If not, how should they be revised?**

The PCAOB interim quality control standards<sup>1</sup> on concurring partner review states that the concurring partner reviewer should have sufficient technical expertise and experience to perform an objective review of significant auditing, accounting, and financial reporting matters that come to his/her attention. The sufficiency of the technical expertise and experience depends upon circumstances of the engagement, including engagement personnel. The reviewer is also supposed to be knowledgeable about relevant specialized industry practices as well as SEC rules and regulations.

The proposed EQR puts emphasis on the notion of competence and adds on the notions of independence, integrity, and objectivity. The proposed EQR also establishes the reviewer's level of expertise and experience required to perform an objective EQR as the same as those of the person who has overall responsibility for the same type of engagement.

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<sup>1</sup> Refer to Appendix E – Concurring Partner Review Requirement (Revised with an Effective Date of March 31, 2002)

Mazars agrees that the competence of an engagement reviewer as currently proposed is adequate. The partner-in-charge of the audit and the EQR engagement reviewer shall have the same equivalent level of qualifications and competency. However, Mazars believes that there is a distinction between qualification and competence which goes further than qualification. As such, Mazars supports the focus on the notion of competence. The notion of authority of the reviewer (standing or status) should also be considered given the role of the reviewer will require a certain level of authority, or veto right if you will, in order to ensure that their role is adequately viewed in the hierarchy of the respective firm. We believe this is important considering the interim standard requires a “concurring partner review” and this proposed standard would require a competent “engagement quality reviewer”, which may not necessary be a partner.

**2 4 Question 4: Should the proposed standard allow the engagement team to consult with the engagement quality reviewer during the engagement? Would such consultation impair the reviewer's objectivity?**

Mazars agrees that the proposed EQR should allow the engagement team to consult with the engagement quality reviewer during the engagement provided that the engagement reviewer maintains his/her independence, integrity, and objectivity. Such consultation would not impair his/her objectivity assuming that he/she maintains his/her professional care and professional skepticism. Such interim consulting should be encouraged because it could serve to resolve audit engagement issues prior to issuance. The EQR reviewer could provide his/her input during the engagement while maintaining his/her independence (mental attitude and audit approach).

**2 5 Question 5: Are the descriptions of the scope and extent of engagement quality review procedures contained in the proposed standard appropriate? If not, how should they be changed?**

Mazars believes that the descriptions of the scope and extent of engagement quality review procedures contained in pages 12 and 13 of this proposed EQR are appropriate. Further, Mazars notices that the requirements to evaluate significant judgments made by the engagement team and the conclusions reached in forming the overall conclusion on the engagement as well as the review procedures used to evaluate the engagement itself are similar to the requirements of the related standards of the IAASB (ISQC1 and ISA 220). As such, there are similarities between this proposed EQR standard and the standards of the IAASB with regards to scope and review procedures for engagement quality review.

**2 6 Question 6: Is the risk-based approach to the engagement quality review described by the proposed standard sufficient to identify significant engagement problems? If not, how should the proposed standard be changed?**

Paragraph C (page 12) of this proposed EQR standard states that “*the engagement quality review described in the proposed standard is a risk-based approach that would require the reviewer to focus on the significant judgments made by the engagement team, as well as the conclusions that*

*the engagement team reached in forming its overall conclusion on the engagement and preparing the engagement report.”*

Since the adoption of AS5 in July 2007, it is now a standard practice to use a risk-based approach when performing audit or review procedures. The risk-based approach, whether used to focus on the greatest risks or on the most significant judgments, is an approach that permits to identify significant engagement issues or audit risks.

Mazars believes that the risk-based approach to the EQR is sufficiently described by the proposed EQR.

**2 7 Question 7: Are the proposed requirements for the review of the engagement team's documentation appropriate? If not, how should they be changed?**

Mazars agrees that the proposed requirements for the review of the engagement team's documentation as described on page 14 are appropriate given the fact that it is limited to the areas reviewed (including the overall risk approach).

**2 8 Question 8: Is the description of the timing of the engagement quality review, as proposed, appropriate? If not, how should it be changed?**

Mazars believes that the description of the timing of the engagement quality review as per page 15 is appropriate as described. The proposed EQR standard requires the engagement quality reviewer to complete his/her work prior to providing concurring approval of issuance. However, the proposed EQR does not prescribe the timing of the review. This gives flexibility to an EQR reviewer to schedule his/her engagement review based on the size and complexity of the engagements and other circumstances as he/she sees fit. It almost introduces an element of professional judgment in selecting the timing of the EQR.

**2 9 Question 9: Is the standard for the engagement quality reviewer's concurring approval of issuance appropriate? If not, how should it be changed?**

Mazars believes that the standard for the engagement quality reviewer's approval of issuance is appropriate as described in Section D, page 15 and 16 of this proposed EQR standard. By making the release of the engagement report contingent upon the completion of the EQR engagement, this legitimizes the importance of the EQR. However, the proposed EQR standard is missing a formal process to resolve legitimate differences of opinion that could occur between the audit engagement team and the engagement quality reviewer. To simply state that the differences of opinion should be satisfactorily resolved first before any concurring review is approved is not adequate. Consequently, Mazars proposes that the PCAOB put some teeth to this process by requiring that any unresolved differences of opinion between the engagement team and the engagement quality reviewer be brought before the audit firm partners-in-charge of quality control or experts. At the minimum, the proposed standard should state that the resolution of any differences of opinion that could occur between the audit engagement team and the engagement

quality reviewer is a matter of a firm's policy, in other words should be resolved based on a firm's policies and procedures before issuance.

**2 10 Question 10: Are the documentation requirements for an engagement quality review appropriate? If not, how should they be changed?**

As described in Section E, page 17 and 18 of this proposed EQR standard, it appears that the documentation requirements for an EQR engagement are appropriate. This engagement documentation avoids the check-the-box approach and borrows heavily from AS3 requirements. However, Mazars would like to propose that the audit engagement document explicitly includes the rationale for selecting EQR reviewer as well as his/her compliance with requirements regarding competence, independence, integrity, and objectivity.

**2 11 Question 11: Should the proposed standard require documentation of the engagement quality review to comply with other provisions contained in AS No. 3? If so, which provisions should be applicable?**

Based on the review of the proposed EQR standard and our knowledge of AS3, it is Mazars' opinion that the proposed EQR standard should comply with provisions contained in AS3 as a whole rather than on a piecemeal basis so as to make both standards complementary and more effective.

We hope the above comments will be helpful and remain available for further observations. If you would like to discuss our submission further, please do not hesitate to contact us.

Yours sincerely,



**Jean-Luc Barlet**  
*Risk Management & Audit Quality*