



Office of the Secretary  
Public Accounting Oversight Board  
1666 K Street, N.W.  
Washington D.C. 20006-2803  
United States of America

January 20<sup>th</sup>, 2004

*Subject : Rulemaking Docket Matter n°012 - Proposed auditing standard on audit documentation and proposed amendment to interim standards*

Dear Mr Secretary,

The CNCC (“Compagnie Nationale des Commissaires aux Comptes”, the French Body of statutory auditors) is very pleased to have the opportunity to provide its comments on the release n°2003-23 of the Public Company Accounting Oversight Board (the “PCAOB” hereafter) relating to the proposed auditing standard on audit documentation and proposed amendment to interim standards.

The CNCC strongly supports the goal of the PCAOB to improve the quality and transparency of financial reporting. We share the PCAOB’s viewpoint that “the integrity of the audit depends in large part on the existence of a complete and understandable record of the work that the auditor performed, of the conclusions that the auditor reached, and of the evidence that supports those conclusions”. Clear and comprehensive audit documentation is an essential element of a quality audit. Further we understand that the rule is intended to respond to Section 103 of the Sarbanes-Oxley Act of 2002 which states, inter alia, that “each registered public accounting firm shall ...prepare and maintain...audit work papers, and other information related to any audit report, in sufficient detail to support the conclusions reached.”

For a variety of reasons set forth below we strongly object to the provision of the proposed standard to retain the working papers at the office issuing the auditor’s report . In addition to the legal barriers in France that would prevent French firms from complying with this provision, we disagree with the fundamental premise that “this requirement would improve audit quality by enhancing the probability that all audit documentation will be prepared with the same standards of audit quality.”

In addition, the CNCC considers that certain provisions of release 2003-23 are inconsistent with release n°2003-024 “Rules related to oversight of non-US accounting firms”. In release 2003-024 the PCAOB expressed a willingness to cooperate with local oversight bodies. The PCAOB also recognized that some provisions of its rules “raise special concerns for non-US registered firms such as unnecessarily duplicative costs and potential conflicts of law”. Release n°2003-023 does not appear to take into account these concerns.

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We provide hereafter our detailed comments on :

- the retention of working papers at the office issuing the auditor's report ;
- the use of the work of other auditors.

Our detailed comments cover both general considerations which could be common to many countries and legal impediments specific to France.

Concerning general considerations, as an alternative to centralizing work papers at the Issuing Firms, our suggestion would be to collect key documentation which :

- identifies the auditor responsible for supervising the work at each location,
- confirms that the audit procedures performed at each location were planned, performed and supervised in accordance with US GAAS,
- identifies all significant matters which should be valued by the issuing office engagement team,
- confirms that the participating firm or office is responsible for retaining audit documentation for the required period.

We believe such recommendation coupled with a regular program of quality control reviews would achieve the objective of clear and complete documentation being prepared and maintained.

Concerning legal issues, we suggest that the only satisfactory resolution of the situation is a cooperation with the "Haut Conseil du commissariat aux comptes" as recently established by the "Loi de Sécurité Financière" of August 1<sup>st</sup> 2003.

The "Haut Conseil" was established, to oversee the professional standards, practices and independence of French "commissaires aux comptes", with the assistance of the "Compagnie nationale des commissaires aux comptes". Decree n° 2003-1121, dated November 25, 2003, with respect to the organization of the "Haut Conseil", specifically provides that the "Haut Conseil" is to maintain regular relationships with its foreign homologues, both within the European Union and internationally. Although the "Haut Conseil" is just beginning its functions, the "Haut Conseil" should have the power to enter into arrangements with foreign regulators that would permit, if it so decides, the sharing of information and documents.

The "Haut Conseil" has jurisdiction for quality control over all French "commissaires aux comptes" including those responsible for the audit of French foreign registrants and French affiliates of other SEC Registrants.

Thus, many of the issues raised by releases 2003-023 and 2003-024 may be addressed in the context of discussions between the PCAOB and the "Haut Conseil". In this regard, we understand that representatives of the "Haut Conseil" expect to meet with representatives of the PCAOB in the near future in order to discuss these matters.

Yours sincerely,

Michel Tudel  
*President,*  
*Compagnie Nationale des Commissaires aux Comptes*

## DETAILED COMMENTS

- **Retention of working papers at the office issuing the auditor's report**

Paragraph 16 of the proposed auditing standard states that “audit documentation sufficient to meet the requirements of paragraphs 4-12 [...] must be retained by the office issuing the auditor's report”.

We believe that the wording of the provision is too general and could give rise to different interpretations. In addition the proposed standard does not specify if any audit procedures are to be carried out on the documentation collected by the principal auditor. It is unrealistic to expect that members of any Issuing Firm could perform any type of meaningful review of transmitted work papers within the time frame necessary to allow for the issuance of a timely audit report.

- **This provision does not contribute to an overall improvement of audit quality :**

This provision appears to be impracticable in the business environment, which tends to be complex and international. The organization of internal control's and accounting systems to produce the financial statements may be very complicated. It does not systematically correspond to legal structures and reporting may be driven by business lines consisting of segment of activities that are carried out by different legal entities. In such situations, the transmission of the audit documentation as prescribed in paragraph 4 to 12 of the release could imply several communication of the audit documentation to several offices.

Furthermore, the transfer of audit documentation raises several issues regarding data integrity. Secured methods for shipping of paper documents, transfer of electronic files and physical control over these items at the Issuing Firm premises would need to be studied. We do not think that the volume of the documentation for a global multinational SEC registrant has been evaluated. Transmission of all audit work papers would create a logistical challenge that could serve to impede rather than facilitate the assessment of audit quality and the evaluation of audit results.

If the objective of centralization of audit documentation is to allow quality control in one location, we draw your attention to the fact that the audit working papers may include numerous elements in local language. There is also a risk that the audit documentation could be misunderstood by a reader or quality control reviewer who is not fully conversant in local laws, regulations and business environment. Work papers implicitly reflect the local auditors knowledge of the French Commercial Code as well as common business terms and practices, common contractual frameworks, local tax and regulatory rules and the local business environment. French “commissaires aux comptes” undergo years of education and training, including practical on-the-job training prior to receiving their professional licenses. This is designed to equip them to carry out an effective audit in the context of the French business environment with its attendant legal and tax structures. While work papers are designed to be complete and comprehensive, they do not and cannot contain exhaustive background information on, for example, French business law. Work papers can and should “contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand the work that was done, who performed it, when it was completed, and the conclusions reached,” however in this case the “experienced auditor would have to be an experienced French trained auditor.

The retention of working papers at the office issuing the audit report will create a significant administrative burden. This process has no evident impact on the quality of the audit. This could lead to an increase of audit fees that is not justified by audit work itself but by administrative tasks.

For the reasons above, we believe that the centralization of audit documentation is impracticable and will not facilitate the PCAOB's objective of consistent audit quality control.

- **Local legal impediments**

In the ordinary course of their professional activities, "commissaires aux comptes" ("French statutory auditors") do have some limited communications with other auditors at the behest of their clients. Thus, in the context of an audit of a consolidated group, the "commissaires aux comptes" (group auditors) may communicate with auditors of a parent or other group company to the extent necessary to permit completion of the audit. Such communications are permitted expressly as concerns other French auditors (Article L. 822-15 of the Code de Commerce) and implicitly as concerns non-French auditors. Such communications are, however, quite limited in scope, and extent to what is strictly needed for the lead auditor to understand the subsidiary's financial statements and do not include communication of audit working papers and other documents.

Other local legal prescriptions will not allow him to transfer their working papers to another auditor in the specific circumstances set out in law where a communication is permissible. These prohibitions are mainly based on the substantive content of documents or information. Additionally and as already mentioned in our letter dated 28 March 2003, "French law prohibits communications of certain information of an economic, commercial, industrial, financial or technical nature to a foreign authority without having obtained authorization from the relevant ministry. Further restrictions could apply to information in sensitive industries with national security implications". It should be also emphasized that violation of some of these provisions are punishable under criminal law.

Due to the international context, local legal impediments of the different countries where groups operate may be cumulative.

For all the reasons highlighted previously, the transmission of the audit documentation as defined in paragraph 4 to 12 of release n° 2003-23 would not be permitted under law for French "commissaires aux comptes".

• **Using the work of other auditors**

Paragraph 16 of the proposed auditing standard states that: "Alternatively, if the auditor considers is necessary in the circumstances, the auditor issuing the report should prepare and retain audit documentation of the work performed by others as part of the review by paragraph 12 of AU sec. 543[...]".

We strongly disagree with that requirement due to legal impediments as discussed above and practical issues. Moreover, this provision does not take into account the specific case of joint audit which is mandatory for all companies presenting consolidated financial statements.

- **Use of other auditors' work**

As discussed above, obtaining the original or copy of the other auditor's audit documentation - whether they belong to the same network as the principal auditor or not - could be prohibited by law. Even if there is no such restriction, it is highly unlikely that the other auditor would provide copies without obligation to do so. This obligation could be imposed by the PCAOB in its standards but only upon auditors registered with the Board. As a consequence, the principal auditor could be in the position of being required to obtain documentation that another party has no obligation or no possibility due to legal impediments to provide.

The alternative presented by the PCAOB to "prepare and retain documentation of the work by other auditors" as a part of the review by the principal auditor is equally unworkable. In fact, there are only two ways in which the principal auditor can incorporate sufficient documentation to meet the documentation standards in the Board's proposed amendment : obtain the originals or a copy of the other auditor's audit documentation or re-perform the work and assemble the audit documentation himself or herself.

Furthermore, this requirement will not be cost effective for the French issuers. The requirement to incorporate the documentation of the other auditors as if the [...] auditor had performed the work himself<sup>1</sup> will lead to a disproportionate increase of audit fees in comparison to the impact on audit's quality. It may lead to discriminatory consequences for the French issuers. The other issuers having a principal auditor will have a competitive advantage that is unacceptable in the context of an equal access to securities markets.

Accordingly, we recommend the PCAOB change its proposed standard and require that the principal auditor document the review of the other auditor's documentation in a memorandum. The memorandum should include the principal auditor's conclusion that the other auditor's work is sufficient for the principal auditor to rely upon the other auditor's report as a basis, in part, for the principal auditor's report, and should include a summary of the other auditor's major findings and conclusions on important auditing, accounting, and reporting issues.

- **Specific French case of mandatory joint audit**

All French SEC Registrants are subjected to joint audit by law : the requirement of joint audit for companies issuing consolidated financial statements (listed or not) is set out in article of 225-228 of the French Code of Commerce. The Law on Financial Security of 1st August 2003 has confirmed this matter as a safeguard to reinforce the audit quality and maintain the auditors' independence.

Therefore, there are some situations where the financial statements filed at the SEC are jointly signed by two "commissaires aux comptes". Both of them act as principal auditor and the responsibilities are jointly shared. Each joint auditor is jointly and severally responsible for the entire audit. Procedures for a joint audit require that the audits are jointly planned including the determination of the nature and extent of test work in all areas. All audit results are shared, files are cross-reviewed and the audit files are considered to be the property of both auditors.

In addition, audit files of the joint auditors are accessible and controlled as they are one unique file even if located in separate offices in particular within the framework of the French national quality control.

We as such consider that joint audits do not fall under the provision's release 2003-023 related to use of other auditors' work.

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<sup>1</sup> Proposed amendment to AU section 543.12 page A2-3