



Paris La Defense, May 29, 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. 028 - Mazars comments on the PCAOB proposed concept release on possible revisions to the PCAOB's standard on audit confirmations - PCAOB Release No. 2009-002 April 14, 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 concept release on possible revisions to the PCAOB's Standard on Audit Confirmations.

We respectfully submit our detailed comments below. We commend the Board for the transparency of its rule deliberation process and for considering the work of the IFAC IAASB's Clarity Project in its new standard-setting process.

1. Should the objective of the confirmation standard be for the auditor to design and perform confirmation procedures to obtain sufficient, competent audit evidence from knowledgeable third parties outside the company in response to identified risks?

Mazars generally agrees with the Board that this proposed standard should include an objective requiring the auditor to design and perform confirmation procedures to obtain sufficient, competent audit evidence from knowledgeable third parties outside the company in response to identified risks. Including a clear objective on top of the auditing standard is consistent with the IAASB¹ and the ASB²'s Clarity Projects and the new PCAOB's proposed standard, such as the Engagement Quality Review.

2. Should the definition of confirmation allow for responses other than traditional mailed responses, such as oral confirmation, facsimile, email, responses processed through third-party service providers, and direct online access to information held by a third party? Why or why not?

Mazars agrees with the Board that given the emergence of new communication technologies since the drafting of AU sec. 330 back in the 90's, any new definition of confirmation should allow for responses originating from other sources such as facsimile, email, responses processed through third-party service providers, and direct online access to information held by a third party.

We have strong reservations about oral confirmation. It is extremely difficult for auditors to evaluate via professional judgment, the reliability, credibility and integrity of the confirming party using verbal means. Accepting oral confirmations alone raises the specter of fraud tremendously. We would propose that oral confirmations, if agreed upon, be combined with other specific procedures such as inspection of relevant documentation and inquiry of appropriate personnel.

3. What direction should the standard include regarding the use of electronic confirmations and third-party service providers?

In general, Mazars agrees with the notion that a new standard on confirmation process should take into account some of the new tools derived from advances in communication technologies and practices such as direct website links into electronic records of an audit client's customer, bank, or other confirming party or "direct access to information held by a third party" or "read-only direct

¹ IAASB – IFAC International Auditing and Assurance Standard Board

² ASB – Auditing Standard Board (AICPA)

website links into electronic records of an audit client on-line access”, or “direct online access”. Mazars believes that a new guidance on confirmation process should be in tune with the business practices of the new internet age.

4. What procedures should the auditor be required to perform to address the risk that the information is not from a proper source and the risk that the integrity of the data has been compromised?

The auditor should devise specific IT controls (website access, information retrieval, and validation protocols, etc) to ensure the adequacy and the integrity of information. Direct follow-up calls to the third parties to verify the source and reliability of data may also be considered for emailed, faxed, and oral confirmations.

However, Mazars believes that auditors should not be required to check the authenticity of documents in this area any more than in any others, unless auditors are put on notice that documents may not be authentic. Professional skepticism does not extend to an assumption that documents lack authenticity. Any revision should make this clear.

Auditing guidance to date has generally either been silent on what to do when auditors’ suspicions are aroused regarding the authenticity or integrity of data, or restricted to a requirement for auditors to resolve any uncertainties and inconsistencies, and failing that, to qualify their audit opinion on the basis of a limitation in the scope of the audit. In practice, unless a fraud trial has been conducted and a court of law determined the outcome, auditors can only seek additional or alternative evidence to corroborate their assessments where evidence presented is doubtful. This is a matter that is already dealt with in auditing standards on audit evidence. To require a different standard of evidence here would require consideration for the need for a different standard of evidence in many other areas.

5. Should the Board expand the presumptively mandatory requirement to request confirmation of accounts receivable in AU sec. 330 to include confirmation of the significant terms of complex or unusual agreements or transactions, including complex or unusual revenue transactions? Why or why not?

Mazars would strongly support the Board in its proposal to expand the presumptive mandatory perimeters of audit confirmations to include not only accounts receivable but confirmation of the significant terms of complex or unusual agreements or transactions, including complex or unusual revenue transactions. Reference to assessed risk is important and should be raised in order to avoid confirmations being mandatory in all areas where the additional work could be for no benefit

Mazars agrees with the Board that revenue recognition is a critical audit area that is often subject to a potentially greater risk of material misstatement due to fraud as well as failure by auditors to audit it sufficiently. In its most recent report on audit deficiencies³, the PCAOB indicated that:

³ Report on the PCAOB's 2004, 2005, 2006, and 2007 Inspections of Domestic Annually Inspected Firms - PCAOB Release No. 2008-008 December 5, 2008: http://www.pcaobus.org/Inspections/Other/2008/12-05_Release_2008-008.pdf

“Inspectors also observed deficiencies when firms were auditing issuers that had more complex revenue-generating transactions or processes. These included the failure to adequately test or evaluate whether (a) the estimated fair values of all elements in multiple-element arrangements governed by Statement of Position (“SOP”) 97-2, Software Revenue Recognition, as amended, were reasonable, (b) the estimated total costs to complete long-term contracts subject to SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts were reasonable, and (c) the estimated fair values of all elements in arrangements with multiple deliverables governed by Emerging Issues Task Force Issue No. 00-21, Revenue Arrangements with Multiple Deliverables were reasonable.”

6. Should the Board require that the auditor consider confirming other items? If so, which items should be included in this requirement?

The Board should consider requiring the confirmations of other items such as cash, investments, credit facilities, and debt agreements that could provide auditors with adequate, sufficient and competent audit evidence in order to support financial statement assertions. The selection of these additional items for confirmation should be risk-based and cost-effective.

7. Should the Board require the auditor to perform specific procedures when evaluating whether confirmation of accounts receivable would be ineffective? If so, what should those procedures include?

Mazars agrees with the notion that the proposed guidance should require the auditor to perform specific procedures when evaluating whether confirmation of accounts receivable would be ineffective. These specific procedures should include: assessing the benefits and costs of performing audit confirmations of AR, and determining the financial statement assertions to be met, determining the probability of non-response rate, which should be supported by historical responses rates for the specific engagement in question. If the auditor arrives at the conclusion that the confirmation of AR should be ineffective, then using alternative procedures (example: tracing subsequent cash receipts) is required.

8. Should the Board include direction in the standard on what constitutes "unusual" or "complex" agreements or transactions, including revenue transactions? If so, what should that direction include?

Mazars would support the Board’s proposal to include in new guidance a clear definition of what constitutes "unusual" or "complex" agreements or transactions, including revenue transactions. As we shown in our response to Question # 5, in general the most frequent audit deficiencies come from the most unusual and complex audit areas such as revenue recognition, accounting for estimates, fair value measurements, income taxes, etc. Thus, adding definitions of unusual and complex agreements and transactions, including revenue transactions, in a new audit confirmation guidance could serve as additional alert and give notice to auditors that further due diligence is required.

The most useful direction for that guidance would be providing factors to consider when evaluating whether or not a transaction may be considered unusual or complex along with examples to help guide the auditor in his determination. In the same time, we should avoid a checklist in which an item that is not listed is not deemed to be complex or unusual.

9. Is additional direction needed with regard to designing confirmation requests and, if so, what direction would be helpful for auditors?

Mazars would support the Board in regard to guidance in designing confirmation requests that meet audit objectives and financial statement assertions. This direction could include key factors to consider when designing a confirmation to meet the required objective of the confirmation. This guidance could be not only divided by theme, but also by audit assertion. Standardized confirmations for area such as banks are beneficial and can facilitate more consistent responses. However, in areas such as accounts receivable, guidance rather than templates would be preferable.

10. Should the standard include the requirement for the auditor to test some or all of the addresses of confirming parties to determine whether confirmation requests are directed to the intended recipients? Why or why not?

Mazars would support the inclusion in the proposed standard of a requirement for the auditor to test only a sample of the addresses of confirming parties for significant account balances, transactions, or complex agreements. Testing all of the addresses of confirming parties to determine whether confirmation requests are directed to the intended recipients would be a burden for the auditor.

11. What additional direction should the standard include with regard to maintaining control over confirmation requests and responses?

Mazars believes that the current guidance as stated in AU sec. 330.28, on how the auditor should maintain adequate control over confirmation requests and responses, should be supplemented with IT control considerations to address communication technology issues (internet). Mazars would also support the Board's re-emphasis on consideration of fraud during the audit planning phase in order to properly assess the "tone at the top" as well as management's integrity (management collusion issue).

12. What direction is necessary in the standard regarding maintaining control over confirmations in electronic form?

As stated above, this proposed guidance should be mindful of technological advances that is leading to an increased of fraud risk, including management collusion. The auditor should be required to maintain tight and systematic control and supervision over the audit confirmation

process in electronic form. In order to reduce the risk of interception of confirmation requests, there could be an audit trail and traceability of the confirmation requests. Example: A Fedex shipment can be followed and trailed from drop-off to pick-up on the internet. In order to reduce the risk of alterations of the confirmation responses, alternative audit procedures should be considered to assess the reliability of the confirmation responses.

13. What changes should be made to the standard regarding the auditor's responsibility for evaluating the reliability of confirmation responses and alternative procedures?

Mazars agrees with the Board that the proposed standard should require an auditor to perform procedures to address the reliability of responses when alternative forms of communication are used.

The Board should consider adopting requirements similar to those in ISA 505, paragraphs 10 and 11 which state that:

- *"If the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request, the auditor shall obtain further audit evidence to resolve those doubts."*
- *"If the auditor determines that a response to a confirmation request is not reliable, the auditor shall evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud and on the related nature, timing and extent of other audit procedures"*.

We also agree with the proposed requirement that when a third-party service provider is used to respond to confirmation requests and if the auditor relies on its system or process, the equivalent of a SAS 70 report should be required to assist that auditor in assessing the design and operating effectiveness of the electronic and manual controls that address the reliability of the information being confirmed.

14. When an auditor uses direct on-line access to a third-party database or a third-party service provider, what procedures should the auditor be required to perform to assess that the information included in the third party database or provided by the third-party service provider is reliable?

Mazars would favor a requirement that a significant third party database or a significant third-party service provider's internal control systems that respond to confirmation requests be audited⁴ so that an auditor could rely upon these audited systems and processes to assess the reliability of the electronic information being confirmed.

⁴ Please refer to Proposed Statement on Auditing Standards, Audit Considerations Relating to an Entity Using a Service Organization (Redrafted) http://www.aicpa.org/download/auditstd/SAS_ED_Service_Organizations.pdf

15. Are there factors other than those mentioned above that the auditor should consider when evaluating the reliability of electronic confirmations? If so, what are they?

Mazars believes that the design and operating effectiveness of a third party service provider's systems and processes that are a part of a confirmation process as described here are adequate.

16. Should the standard require the auditor to perform alternative procedures for non-responses to positive confirmation requests? Why or why not?

Mazars would strongly support maintaining the requirement that the auditor perform alternative procedures for non-responses to positive confirmation requests. Inherently, non-response to positive confirmation requests call for actions on the part of the auditor as this is the primary third party evidence to be relied upon.

17. Should the standard require the auditor to investigate exceptions identified as a result of confirmation responses? Why or why not?

Mazars strongly believes that the new guidance should clearly mandate the auditor to investigate exceptions identified during the audit confirmation process. This requirement would allow the auditor to determine whether the auditing standard's objective on top was met as well as whether the financial statement assertions were met for audit confirmations of accounts receivable and other complex transactions or account balances to be confirmed.

We propose that the Board clearly defines what an exception is using ISA 505.6(e) as a starting point and including electronic confirmations from third-party database or third-party service provider.

18. Should there be a requirement for the auditor to consider the possibility of previously unidentified risk of material misstatements including previously unidentified fraud risk factors when performing alternative procedures for non-responses and investigating exceptions on confirmation responses? Why or why not?

Mazars agrees with the requirement that the auditor consider the possibility of previously unidentified risk of material misstatements including previously unidentified fraud risk factors when performing alternative procedures for non-responses and investigating exceptions on confirmation responses. This is consistent with the risk-based approach as recommended by AS 5.

19. Should the standard include alternative procedures the auditor should perform for non-responses when the auditor is confirming the significant terms of unusual or complex agreements or transactions? What should those alternative procedures include?

Mazars agrees with the requirement that the proposed standard include alternative procedures the auditor should perform for non-responses when the auditor is confirming the significant terms of

unusual or complex agreements or transactions. The alternative procedures may include using the work of specialists; extended testing of revenue recognition surrounding these contracts using whatever third party evidence available; requesting copies of the contracts and all amendments be sent directly to the auditor from the third party; considering a scope limitation, etc.

20. Should the standard include procedures for the auditor to perform to address situations in which management requests the auditor not confirm certain accounts, transactions, agreements, or other items? If so, are the procedures listed above the appropriate procedures for the auditor to perform? What other procedures should the auditor perform to address situations in which management requests that the auditor not confirm accounts, transactions, agreements, or other items?

Mazars would not support having the standard include procedures for the auditor to perform to address situations in which management requests the auditor not confirm certain accounts, transactions, agreements, or other items. Mazars strongly believes that at inception, the engagement letter should clearly state that no audit areas are off-limits to audit procedures. Mazars strongly believes that management integrity issue is raised anytime that management tries to limit the scope of audit procedures. Not confirming certain accounts, transactions, agreements, or other items under management is tantamount to limiting audit scope.

21. Should the auditor be required to perform specific procedures to evaluate the effect of disclaimers and restrictive language on confirmation responses? If so, what specific procedures should an auditor be required to perform in evaluating such disclaimers or restrictive language?

Mazars would not support requiring an auditor to perform specific procedures to evaluate the effect of disclaimers and restrictive language on confirmation responses. This would put another burden on the auditor. Disclaimers and restrictive language on confirmation requests are increasingly common now in response to bank confirmations and legal confirmation requests and the view is taken that of themselves, they do not significantly impair the value of such evidence. Furthermore, the practical effect of a disclaimer or restrictive language is likely to require a legal analysis that is not within the auditor's competence.

22. Should auditors be allowed to use negative confirmations and, if so, in what circumstances?

Mazars would support the continuing use of negative confirmations as currently stated in AU sec. 330.17-20. We believe that there are situations in which negative confirmation may provide additional comfort over balances, especially when they are not used in conjunction with other forms of audit evidence. For example, when auditing deposit accounts for a banking institution, positive confirmations may not be the most efficient or effective method, however, a combination of testing of the internal control system, positive and negative confirmations could provide the appropriate level of comfort needed. We believe that clear guidance is needed in the use of negative confirmations and the audit evidence obtained from them.

23. Should the standard include the requirement that the auditor perform additional substantive procedures when using negative confirmations? Why or why not?

Mazars believes that the current requirement as recommended by AU sec. 330.51 is sufficient.

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