

Mr. James GUNN
Technical Director
IAASB
545 Fifth Avenue, 14th Floor
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New York 10017
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Paris, October 21, 2015

Référence : 2015 0813

Re: Comments on IAASB Exposure Draft on (ED) : “Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations”

Dear Mr. Gunn,

The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) are pleased to provide you with their comments on the IAASB Exposure Draft (ED): “Responding to Non Compliance or Suspected Non Compliance with Laws and Regulations” (“the ED”).

The two French Institutes understand the effort incurred to ensure consistency between IAASB's International Standards on Auditing (ISAs) and the IESBA Code of Ethics (the Code), in light of the recent IESBA ED on Responding to Non-Compliance with Laws and Regulations (NOCLAR) issued in May 2015.

However, we consider that a cost-benefit analysis should be done before amending the existing ISAs for limited improvements. As a matter of fact, frequent changes to ISAs require work of translation and transposition into national standards and firms' methodologies. This runs completely contrary to the eagerly awaited IASs stable platform. We therefore urge the IAASB to carefully consider whether such limited changes to ISAs merit such an investment.

Moreover as the IESBA consultation has not been fully concluded, we have some concern regarding the implicit assumption by the IAASB as to its outcome. The explanatory memorandum does not indicate the extent of the due process in place to ensure a structured and formalized process of communication between the IAASB and IESBA with regards to this ED. We consider that it would be preferable that the IESBA's proposals be fully finalized prior to the IAASB considering the effect on the ISAs.

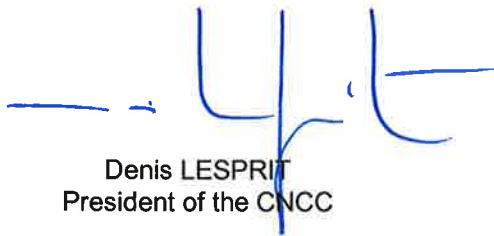
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Envoyer obligatoirement toute correspondance aux deux adresses ci-dessous :

This letter also includes our response to the questions set out in the proposed document.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,



Denis LESPRIIT
President of the CNCC



Philippe ARRAOU
President of the CSOEC

Specific Comments

Question 1: Whether respondents believe the proposed limited amendments are sufficient to resolve actual or perceived inconsistencies of approach or to clarify and emphasize key aspects of the NOCLAR proposals in the IAASB's International Standards

We note that there are still needs to further align the vocabulary of the ED with the IESBA ED – *Responding to non-compliance with laws and regulations*. Differences in the wording between the IESBA Code and the ED could lead to uncertainties in their respective interpretations. For example, we have noted the following differences:

- Paragraph 8a of the ISA 250 - *Consideration of laws and regulations in an audit of financial statements* uses the expression “ethical requirements regarding an entity's non-compliance with laws and regulations”. We believe that this should be aligned with the terms used in the IESBA code, i.e. “Responding to non-compliance with Laws and Regulations”. The expression “requirements regarding” appears too generic, the obligation for the auditor is to respond to the non-compliance with laws or regulations.
- This comment is also applicable to the paragraph 8a of the ISA 240 – *The auditor's responsibilities relating to an audit of financial statements*

We have a concern regarding paragraph A5a of the said ISA 250 that gives examples of laws and regulations that may be included in the 2 categories described in paragraph 6 of the said ISA 250, i.e.

- the laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements;
- the other laws and regulations that do not have a direct effect on the determination of amounts and disclosures on the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties.

We consider that the list in paragraph A5a is going too far. Some readers of the standard may consider that all these topics fall necessary in categories 1 and 2 of the said paragraph 6 of ISA 250, whereas some topics may be in the third category (no further work to do). More specifically, we have some concerns in dealing explicitly with environmental protection and public health and safety. We therefore recommend either that the IAASB categorizes the topics given in the paragraph A5a into the 2 categories of laws and regulations as defined in the paragraph 6, or, should such stratification not be possible that paragraph 5a be deleted. The latter is our preferred solution.

We have concerns with the paragraphs A12a and A13a of the said ISA 250 for the following reasons:

- We have difficulties to understand the link between the paragraph A12a that deals with the procedures to be performed by the auditors (i.e. to become aware of information about non-compliance with laws or regulations other than as a result of performing the procedures in paragraphs 12-16 of ISA 250) and the paragraph A13 that lists matters that may be an indication of non-compliance with laws and regulations. We are also wondering about the position of paragraph A13 after the paragraph A12a. We consider that the IAASB should further clarify the status of these 2 paragraphs;
- We also wonder why the paragraph A12 is not cross-referenced with paragraph 18 of the said ISA 250.

Paragraph A16 states that “*If it is not considered appropriate to consult with the entity's legal counsel or if the auditor is not satisfied with the legal counsel's opinion, the auditor may consider it appropriate to consult on a confidential basis with others within the firm, a network firm, a relevant professional body, or with the auditor's legal counsel as to whether a contravention of a law or regulation is involved, the possible legal consequences, including the possibility of fraud, and what further action, if any, the auditor would take.*” We understand that the changes in the paragraph result from conforming

amendments with the IESBA ED – *Responding to non-compliance with laws and regulations*. However, we have a concern about the mention “a network firm”. The reference to “the network firm” may generate inconsistencies between the IESBA code and ISA 220 – *Quality control for an audit of financial statements* and between the said ISA 250 and the other ISAs in which the concept of “the network firm” is not addressed. We therefore consider that this amendment is not relevant and should be deleted. We recommend that the IAASB maintains the homogeneity and consistency between the ISAs.

Concerning the homogeneity and the consistency between the ISAs, we have the following comments:

- paragraph A56 of ISQC1 - *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* should be amended to be consistent with paragraph 28 of ISA 250, i.e. change “the legal or ethical right” for “the legal or ethical duty or right”;
- paragraph A59a of ISA 240 – *The auditor’s responsibilities relating to an audit of financial statements* should be amended to be aligned with the terms and semantics used in paragraph 28 of the said ISA 250, i.e. change “the auditor is required to report the non-compliance to an appropriate authority” for “the auditor has a legal or ethical duty or right to report”. This is the same for paragraph A65 of the said ISA 240, i.e. change “law , regulation, or relevant ethical requirements may include a duty or right to report” for “law , regulation, or relevant ethical requirements may include a legal or ethical duty or right to report”;

Finally, we are surprised by the order of the paragraphs A17, A18 and A18a of the ISA 250. Paragraph A17 states that as required by paragraph 21 of the said ISA, the auditor evaluates the implications of non-compliance in relation to other aspects of the audit. Paragraph A18 adds that in exceptional cases the auditor may withdraw from the engagement. Paragraph A18a gives examples of circumstances that may cause the auditor to evaluate the implications of non-compliance. We believe that paragraph A18a should be transferred just below the paragraph A17, since we consider that paragraph A18a illustrates paragraph A17. The cross-reference of the paragraph 21 to the paragraph of the application and other explanatory material should be accordingly amended.

Question 2: The impact, if any, of the proposed limited amendments in jurisdictions that have not adopted, or do not plan to adopt, the IESBA Code. For example, would any of the changes to the IAASB’s International Standards be deemed incompatible with the relevant ethical requirements that would apply in those jurisdictions?

We confirm that auditors in France will not be significantly impacted by this proposal, at least for statutory audit since we already have quasi-similar obligations required by law.

Other Comments on specific matters

In addition to the requests for specific comments above, the IAASB is also seeking comments on the general matters set out below:

(a) Preparers (including Small- and Medium-Sized Entities (SMEs)), and Users (including Regulators)—The IAASB invites comments on the proposed amendments to its International Standards from preparers and users.

As a professional institute, our members are issuers of the auditor’s report and not preparers or users of the financial statements.

(b) *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting its International Standards, the IAASB invites respondents from these nations to comment on the proposed amendments to its International Standards, in particular, on any foreseeable difficulties in applying it in a developing nation environment.

N/A

(c) *Translations*—Recognizing that many respondents may intend to translate the final amendments to its International Standards for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed amendments to its International Standards.

We are increasingly concerned with the frequency of revisions to the ISAs. The resulting work in terms of translation and application can be significant. We urge the IAASB to carefully consider whether such limited changes merit such an investment.

d) *Effective Date*—it is anticipated that the effective date of the amendments to the IAASB's International Standards would be aligned with the effective date of the NOCLAR standards, which the IESBA will determine in due course.

We note that there is still scope for further alignment of the ED with the IESBA ED on NOCLAR. We would like to emphasize the importance of a due process in ensuring alignment in substance and effective dates. We strongly support cooperation between the two projects.