Paris La Defense, 31st May 2021

Accountancy Europe
Hilde Blomme, Deputy Chief Executive Officer
Avenue d'Auderghem, 22-28/8
B-1040 Brussels

Re: Comments on the Publication "Going Concern: Recommendations to Strength the Financial Reporting Ecosystem"

Dear Hilde,

Mazars is pleased to submit this letter in response to the invitation to comment on Accountancy Europe's publication Going Concern: Recommendations to Strength the Financial Reporting Ecosystem".

Mazars is an international, integrated and independent partnership, specialising in audit, accountancy, advisory, tax and legal services. As of 1st January 2021, there are over 26,000 professionals, including more than 1,000 partners, in more than 90 countries worldwide, trusted and committed in serving major international groups, entrepreneurial and small businesses, private investors and state-owned entities at every stage of their development.

Mazars is a member of the IFAC Forum of Firms, and thus fully supports, for more than 15 years now, the initiatives of IFAC IAASB, IESBA, Forum of Firms and Transnational Auditors Committee, as well as those of the regulators and institutes in these areas of common concern for public interest, in promoting high quality standards as part of the international roll-out of audit engagements. All Mazars firms and correspondents are committed to support and apply those initiatives.

We are committed to being #MazarsForGood – that is a global citizen devoted to having a positive impact on the world and communities in which we operate. We are dedicated to contributing to society in the best possible way, whether through providing quality services to our clients to help them achieve sustainable growth, enabling our talented people to reach their highest potential, or contributing to the public debate with positive insights for the future.

Should you want to get further information, you can refer to our 2019-2020 Group Transparency report Group transparency report 2019/2020 - Mazars Group.

We would be pleased to discuss our detailed comments submitted hereafter with you and remain at your disposal, should you require further clarification or additional information.

Yours sincerely,

Jean-Luc Barlet
Mazars Group Chief Compliance Officer
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Overall comments

Mazars is supportive of all initiatives taken to enhance audit and assurance quality and the future of the profession, for the benefit of the public interest, and thus we welcome the opportunity to add our views to the debate.

We believe that the topic of going concern is a major topic of public interest and involve all stakeholders, especially in a crisis environment such as the one of Covid-19 we are facing for longer than 1 year now.

We believe it is high time to join efforts and forces for an integrated approach among legislators, corporate governance actors, accounting and auditing standard setters. The status quo is not an option, neither for the auditors nor for the other stakeholders.

We have answered to the IAASB Discussion paper in February 2021 from which we want to highlight some extracts.

We present hereafter our comments on your recommendations.

1. Broaden companies' work effort

We agree with this proposal.

In relation to the oversight of management's work, legislators may consider requiring boards or audit committees to report on the oversight.

2. Mandate disclosure on companies' risk management systems on going concern and expand the auditor's involvement

We share the same view.

We reckon that the disclosure requirement on companies' risk management systems should be simple and straight forward. To this end, a checklist type of guidance should be developed, and each company then determines whether it has met the relevant requirement.

On the other hand, the framework for auditors to give assurance on the parts of the risk management systems relevant to going concern assessments should be principle-based. This is to allow auditors to exercise professional judgement as to the effectiveness of the systems. This should be covered in the context of the audit opinion in a specific paragraph on going concern, rather than as a separate assurance report.

3. Mandate going concern disclosure even if no uncertainties

Our thoughts are in line in terms of enhancing going concern disclosure requirements.

Historically, going concern disclosures have been perceived as a "bad signal" for the entity and may result in actions by stakeholders which exacerbates the company's financial difficulties. This is mentioned in the captioned publication and also clearly stated in the discussion paper issued by the International Auditing and Assurance Standards Board (IAASB) "The auditor is pressured to accept less transparent company disclosures and/or not to include going concern uncertainties in the auditor's report because of fears that such disclosures/reporting will be a self-fulfilling prophecy."

We believe that stronger disclosures regarding the key assumptions and data used in assessing going concern assumption, as well as the time period considered, would benefit users.

Stronger disclosures requirements, if used more frequently, would lessen the negative impacts of going concern disclosures and help facilitate more frequent, constructive dialogue between management and auditors, which should result in more transparency of the financial health of companies.

4. Change in mindset, transparency and communication

We agree that going concern disclosures could be viewed as a negative signal. However, as discussed in #3 above, disclosures may help strengthen the relation between the auditor and the audited company by encouraging frequent and constructive communication.

To enhance transparency, standard setters and/or legislators may consider requiring disclosures of financial ratios key performance indicators (KPIs) and non-financial indicators used to manage the business, and / or comparisons of KPIs with sector or industry benchmarks.

Financial statement users will find it useful if the audit committee or board reports on selected areas, including the key elements of challenge from the audit committee or board vis a vis management. Such reporting which is already encouraged for public interest entities (PIEs) in some jurisdictions, could be helpful to enhance robust governance and transparency.

Furthermore, we believe a reminder of the primary responsibility of management and of those charged with governance in relation to the conclusion on the appropriateness of the going concern assumption would be helpful.

5. Mandate an audit committee in each public interest entity

We believe an audit committee with independent members should be mandatory for entities with certain characteristics (PIEs; size etc.). Also, members of audit committee need to have appropriate qualifications and knowledge in the area of financial statements, and the relevant industry to be able to challenge management independently and robustly. Clearly defined expectations on the financial qualifications ("financial expert") required should be considered.

6. Clarify and harmonise the period for going concern assessment

We agree that it could be useful to clarify in the standard the meaning of "a minimum of 12 months".

In addition, the auditing standard mentions that the auditor should remain alert throughout the audit. This concept is not well understood and is applied differently across jurisdictions, some have adopted a proactive alert / safeguard mechanism, while others have not. Some have also put in place forecasts that need to be approved by a board at a certain period of time. We encourage the standard setters to give more guidance on what is expected around "remain alert throughout the audit".

7. Broaden auditors' area of consideration and work effort

We share the same thoughts.

We suggest the new requirements should be principles-based. This allows flexibility for auditors to exercise professional judgment and tailor the detailed work procedures according to the circumstances of their clients.

To facilitate auditors' work, standard setters and legislators may consider:

- Summarizing red flags and/or indicators/ratios per sector/industry, and making them available to auditors;
- Providing guidance on how to address going concern in a transnational group under ISA 600.

8. Make an early warning mechanism for auditors effective

It may be challenging to establish a standardized set of early warning mechanisms. We recognize that such mechanisms are difficult to design given the desire for a level of autonomy by countries when it comes to national law or regulation.

However, having some universal and guiding principles would benefit all members in the financial reporting ecosystem.

For example, in France, there is an alert procedure that allows the auditors to require the entities to call for a general shareholders meeting whenever it is necessary.

We would encourage the auditing standard setters to seek dialogue with other stakeholders, such as the accounting standard setters on accounting matters for going concern. We believe that stakeholder engagement to ensure that investors and other users of financial statements have a thorough understanding of an auditor's responsibility in relation to going concern will go a long way towards addressing these issues.

9. Ideas to be explored

- Assessing companies' longer-term viability and resilience

  We support the consideration of longer-term viability in a separate way with a need for standard setters and legislators to clarify the period covered and how each of short-, medium- and long-term is defined.

  However, as "one size does not fit all", we should be careful to have a differential requirement between i) the entities that have obviously per their business model or their finance no issues regarding viability or resilience, versus ii) the entities which face tensions on their activity perspectives and cash, for which viability statement can be useful and hence make sense.

Besides, in a context of a group audit, the request of viability statement should be done at the Group level and should consider all entities included in the scope of consolidation.

We believe that the key is for the external auditor to make a statement that matches the period of the entity. In certain business activities and/ or in a crisis context, requesting the entities to perform forecasts on a long-term basis may be non-relevant.

The statement of solvency indicating a company's ability to pay all debts as and when they become due and payable (existing in Australia) can be a useful practice and subject to reporting from the auditor.

In the UK, the reporting on the entity's longer-term viability is subject to procedures performed by the auditor which result in a "requirement to report in the auditor's report whether there is anything material to add or draw attention to in respect of management's assessment."

We believe it would be helpful to have a post-implementation review in those two countries to see if those two measures enable the auditor to target the objective of preventing corporate failures.

- Interconnecting financial and non-financial information

  We believe that the NFRD and now the proposal of CSRD gives a momentum for this and creates the conditions for the integrated reporting.

10. Other recommendations

We suggest considering extending the idea of a KAM (or similar comment) regarding going concern to non-PIEs, if and when relevant.