Highlights
Annual Report 2011

Haut Conseil du commissariat aux comptes

STATUS
The Haut Conseil du commissariat aux comptes is a French independent public authority, a legal entity with financial autonomy.

ORGANISATION
Board
12 members, appointed by decree for a term of six years; half of whom are replaced every three years:
• three magistrates, (one of them holds the position of Chairperson of the Board);
• the Chairman of the French financial markets authority (Autorité des Marchés Financiers-AMF) or his representative, a representative of the Ministry of Economy, a university professor specialized in legal, economic or financial matters;
• three individuals with expertise in economic and financial matters: two being experts in public offerings of securities or in companies whose securities are admitted for trading on the regulated market, the third having specialized knowledge of SMEs or non-profit associations;
• three statutory auditors, two of whom are experienced in audits of entities that make public offerings of securities or whose securities are admitted for trading on a regulated market or are funded through public donations.

Secretariat General
Under the authority of the Secretary General, the directorates prepare the work of the Board and the specialized committees. The Secretary General has specific powers with regards to inspections and deals with individual cases, except in cases where the H3C acts as an appeals body for judicial matters.

As of the end of December 2011, the Secretariat General is composed of 39 officers.

FINANCIAL RESOURCES: 8.9 million Euros

Christine Thin
 PIE audit firms

- 172 PIE audit firms inspected in 2011, including 2 firms that belong to large international network
- 773 engagements inspected,
  - including 61 engagements held by the 2 audit firms forming part of a large international network
  - and including 296 PIE engagements

Non-PIE audit firms

- 1 144 audit firms inspected in 2011
- 2 679 engagements inspected.

- A large number of the firms had implemented appropriate auditing procedures and employed appropriately qualified staff.
- All firms, particularly those forming part of large international networks, need to give increased attention to the risk of impairment of independence, through better identification of non audit services that could affect the independence of the signatory partner.
- In firms not operating in major structured networks, the training of audit staff was often found to be insufficient for the purposes of audits in specific sectors or involving the application of IFRS standards. It was also noted that some of these firms had not availed themselves of tools tailored to perform the statutory audit in these specific sectors.
- Firms for which audit is not the main part of the activity did not systematically make arrangements for a specific organisational format to carry out audits, or use methodological tools to facilitate audit procedures. In the case of firms working occasionally on audits in sectors that require particular expertise, it was noted that the methodological tools were not always tailored to such specific circumstances.

2011 inspection schedule

PIE audit firms

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The H3C produced a 3-year inspection plan for PIE audit firms (started in 2009) and a 6-year plan for non-PIE audit firms (started in 2008).

Results of inspections

- Many of the engagements inspected did not reveal significant shortcomings in the performance of the statutory audit which could affect the reliability of the audit opinion on the financial statements.
- In a number of high-risk engagements or engagements entailing complex accounting issues, however, deficiencies in procedures, lack of documentation and deficient checking of financial data were observed. A lack of professional scepticism was also observed in this type of engagement.
1. Reinforce the auditor’s independence vis-à-vis the entities audited

- exercising vigilance in terms of prevention and treatment of situations entailing risks of impairment of independence
- specifically appraising situations entailing risks of impairment of independence and referring to the H3C should any doubts arise, as stipulated in the French professional Code of Ethics
- demonstrating professional scepticism vis-à-vis accounting estimates and data prepared by the entities audited

2. Maintain a high level of competence

- adopting a specific organisational format for the purposes of audit
- improving the training of those involved in the statutory audit

3. Improve the performance of the audit

- improving the methodological tools guiding the audit approach
- documenting audit procedures, especially those deployed for significant accounting cycles
- reinforcing controls of disclosures provided by the entities
- applying professional standards fully and systematically
- distributing tasks among statutory auditors in a balanced fashion both quantitatively and qualitatively, when the financial statements are audited by several statutory auditors
- reinforcing the effectiveness of internal quality control systems

The H3C also reminds audit firms of the necessity of paying close attention to compliance with all regulatory obligations.

**Follow-up to inspections**

**PIE audit firms**

- Since 2010, over 400 individual recommendations have been sent by the Secretary General of the H3C to PIE audit firms inspected.
- The Secretary General of the H3C requested one third of the firms inspected to implement an improvement plan. These plans are monitored either remotely or in the course of a subsequent inspection.
- The Secretary General of the H3C issued referrals to the Public Prosecutor regarding 11 PIE audit firms.

**Non PIE audit firms**

- Since 2010, over 1,400 individual recommendations have been sent to non PIE audit firms.
- An improvement plan was requested for more than 20% of the firms. With regards to these firms, the decision may be taken to schedule a further specific inspection if the responses received are not satisfactory.
- The Secretary General of the H3C issued referrals to the Public Prosecutor regarding 33 non PIE audit firms.
The H3C issued opinions on the following issues, in order to facilitate the adequate implementation of audit regulations:

- Distribution of audit work between joint statutory auditors (opinion 2012-01)
- Certification of the accounts of political parties and groups (opinion 2011-21)
- Statutory audit for works councils (deliberation 2011-08)

In October 2010 the H3C organised a working group in order to draft a «professional best practice» guide dealing with the risks of self-review. The best practice guide describes the procedure to be adopted by a statutory auditor in order to anticipate self-review situations and the risks of impairment of independence that may arise from such situations.

Furthermore, the H3C issued opinions on the following professional ethics issues:
- Occurrence of a specific event during the engagement (opinion 2011-04)
- Ending the engagement of the statutory auditor prior to the expiry of the legal term of six financial years (opinion 2011-07)
- Possibility for a statutory auditor to resign in order to be able to provide accountancy services to the entity (opinion 2011-22)
- Possibility of using an independent auditor not forming part of the professional auditing structure handling the engagement (opinion 2011-06)
- Possibility for a statutory auditor to issue an attestation as part of a legal dispute (opinion 2011-08)
- Ability for the statutory auditor to act as «certifier» in accordance with Law 2010-476 of 12 May 2010 (opinion 2011-03)

The above opinions have been published on the Haut Conseil website (http://www.h3c.org) and appended to the annual report for 2011.
On 6 April 2011, an agreement was concluded between the H3C and the ACP (French banking and prudential authority) stipulating the practical arrangements for information exchange between the two authorities.

In accordance with the agreement signed on 11 January 2010, the H3C and the AMF coordinated their activities in relation to inspections of statutory auditors.

The national professional body for auditors (CNCC) participates in the work of the H3C via coordination groups and exchanges of information necessary for the supervision of the profession.

The H3C is also a member of the Advisory Council Against Money-Laundering and the Financing of Terrorism (COLB).

The focus of the work carried out by the European Group of Auditors’ Oversight Bodies (EGAOB) were on the following topics:
- exchanges on the draft audit reforms;
- assessment of third country audit supervisory systems;
- working arrangements with third country authorities;
- protection of personal data.

The representatives of European regulators, who are also members of the EGAOB, created the European Audit Inspection Group (EAIG) for the purposes of:
- sharing information, experiences and outcomes relating to quality controls;
- exchanges with standard-setters and the audit networks.

The national regulators are currently developing a database bringing together the results of inspections carried out on audit firms so as to exploit the information in dialogue sessions with the audit firms concerned.

Following the publication of the draft European regulations in November 2011, the H3C launched a consultation of all French stakeholders and created a working group composed of representatives from the statutory audit profession, businesses, regulatory authorities and universities, with representatives from the Ministry of Justice and the Ministry of Economy and Finance in association with the project. The group was able to gather the opinions of the different stakeholders regarding the European Commission’s proposals, and identified the potential effects of the proposed measures proposed for statutory audits. On 3 July 2012, the H3C issued a report setting out its positions, as well as a summary of the work performed by the working group.

The International Forum of Independent Audit Regulators (IFIAR) focuses its activities on sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity with a focus on inspections of auditors and audit firms, promoting collaboration and consistency in regulatory activity and providing a platform for dialogue with other international organizations that have an interest in audit quality.

IFIAR currently has the following Working Groups:
- GPPC Working Group: dialogue with the six largest audit networks;
- International Cooperation Working Group: development of international cooperation;
- Inspection Workshop Working Group: development of technical inspection workshops;
- Investors Working Group: dialogue with the investors community;
- Standards Coordination Working Group: coordination of work relating to international standards.

Following the adequacy decisions taken by the European Commission on 5 February 2010 and 1 September 2010, the H3C has entered into negotiations with its American, Swiss and Japanese counterparts with a view of concluding bilateral cooperation agreements.

National coordination

European cooperation

International cooperation
In 2011, 4 new standards concerning the duties of statutory auditors were approved, and a further 2 standards are currently undergoing approval.

Following an opinion issued by the H3C, the Minister of Justice approved a standard which enables statutory auditors, to carry out consultations concerning internal controls requested by the audited entity in relation to the preparation and treatment of accounting and financial data.

### New endorsed standards

- **Specific principles applicable to the audit of consolidated accounts:** the standard stipulates the work to be carried out by statutory auditors concerning the certification of consolidated or combined accounts.
- **Relations and transactions with related parties:** the requirements of the standard ensure that the statutory auditor assesses the risks concomitant with relationships and transactions conducted with related parties and addresses them in the audit procedures.
- **Communications with the bodies stipulated in Article L. 823-16 of the Commercial Code:** the standard sets forth the key elements of information that auditors and the entity’s management or supervisory boards must exchange in the performance of their respective assignments.
- **Communication of internal control weaknesses:** the standard deals with the reporting of internal control weaknesses over accounting and financial information, identified during the audit, which the auditor communicates to management or supervisory bodies of the entity.
- **Consultations forming part of procedures directly related to the engagement of the statutory auditor as it pertains to internal controls over the preparation and treatment of accounting information:** the standard authorises the statutory auditor, at the request of the audited entity, to carry out consultations on internal controls relating to the preparation and processing of accounting and financial information by the entity and sets out the limitations of the consultations that may be carried out in this respect.

### Ongoing work

- Review of the standard concerning misstatements and materiality threshold.
- Certification of the accounts of social security bodies.
- Adapting the clarified international auditing standard ISA 402.
- Duties of statutory auditors on the environmental and social information published by entities.

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**The complete French version of the H3C’s annual report for 2011 is available at [www.h3c.org](http://www.h3c.org)**