



THE FRENCH STATUTORY AUDIT

STATUTORY
AUDITORS SERVING
THE PUBLIC INTEREST



CNCC
COMPAGNIE
NATIONALE DES
COMMISSAIRES AUX
COMPTES



The President's editorial

French statutory audit, the “*Commissariat aux Comptes*”, which was first created in 1863, has demonstrated all along its history that it was capable to adapt to a changing economy, thereby serving the public interest on a continuous basis.

For many years the “*Compagnie Nationale des Commissaires aux Comptes*” has dedicated itself to serving its 13,625 professional members, and more widely, to the economy and the society as a whole by conducting actions aimed at ensuring audit quality and at extending the scope of statutory audit.

The society more than ever needs confidence, transparency and security. So does the economy to recover the path of growth.

Drawing on their professional standards, and their ethics, French statutory auditors work in the name of public interest and bring, through their opinions on the financial statements, an indubitable added value to the economy.

These few pages will enable you to appraise the present role of the statutory audit in France, the part played by the statutory auditors in bringing trust and confidence to the economy, and the vision we have for the future of a profession which knows how to respond to the needs of an ever-changing society.

YVES NICOLAS
President of the

« *Compagnie Nationale des Commissaires aux Comptes* »

“Table of content”

The President's editorial

1

What we do?

> 5

2

Who we are?

> 7

3

How we work?

> 8

4

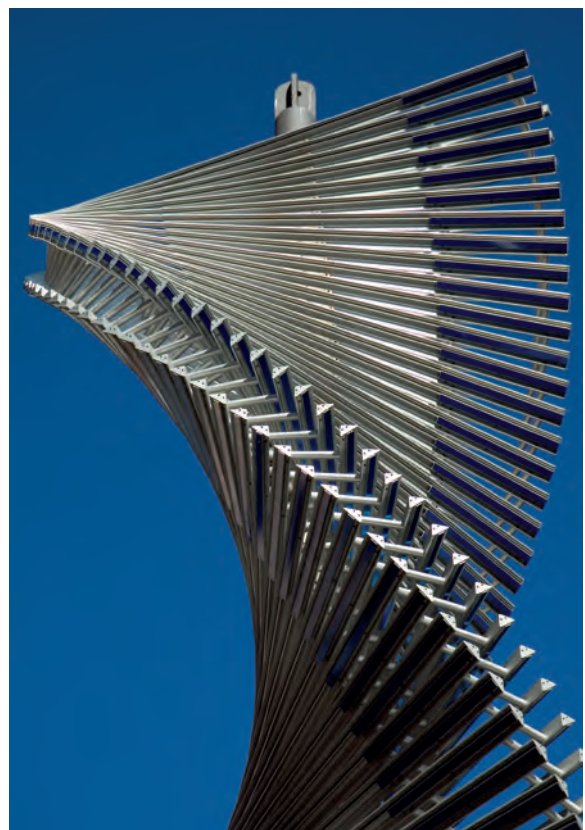
Where we are?

> 9

5

Glossary

> 10



1 What we do?

The statutory audit is primarily a matter of providing confidence. In enhancing the credibility of the financial statements of the audited entity, the statutory auditor provides confidence to the market and to the economy as a whole.

By providing the opinion of an independent and competent professional on the financial statements of companies, the statutory audit is useful to all the stakeholders of the company and ultimately to the society as a whole.

Already essential in a period of growth, it becomes crucial in times of crisis.



MORE AND MORE SECTORS ARE COVERED

In all sectors of the economy, there are entities which are subject to statutory audit.

In France, the first entities which were subject to statutory audit were limited companies which were required by the July 1867 law to appoint one or more auditors to audit their financial statements. Over the years, the scope of the entities subject to statutory audit has grown regularly, taking into account the size and the nature of the entities. Such an extension of the scope of statutory audit has led to the audit being present in all sectors of the economy including the not-for-profit and the public sectors.

MORE AND MORE ENTITIES ARE SUBJECT TO STATUTORY AUDIT

All entities have an interest in having external controls: whether large or small companies, public interest or private entities, State owned entities, not-for-profit charities, all of them need to demonstrate transparency to their stakeholders.

In France, the following entities are subject to statutory audit:

- All public limited companies.
- Simplified joint stock companies which are part of a group or which are over two of the three following thresholds:
 - 20 employees.
 - 2 million Euros of turnover or resources.
 - 1 million Euros of total assets.
- Other undertakings including limited liability companies which are over two of the three following thresholds:
 - 50 employees.
 - 3,1 million Euros of turnover or resources.
 - 1,55 million Euros of total assets.

CHARITIES AND FOUNDATIONS

For many years, the law regularly extends the scope of intervention of statutory auditors in not-for-profit organizations.

The objective is to increase the confidence of donors by assuring greater transparency of accounts. It is therefore essential to be able to know how public or private funds are used and distributed.

Charities are therefore subject to statutory audit when:

- they perform an economic activity and exceed two of the three following criteria:
 - 50 employees.
 - 3.1 million Euros of turnover or resources.
 - 1.55 million Euros of total assets.
- they benefit from French State of public authorities subsidies for a yearly global amount over 153 000 Euros.
- they receive from donors annual gift of a total amount of 153 000 euros for which a tax receipt has been issued.

PUBLIC SECTOR ENTITIES, SOCIAL SECURITY, HOSPITAL, UNIVERSITIES AND TRADE UNIONS

The need for increased transparency is also at the core of new engagements:

- in the social security system, since 2006.
- in universities since 2008.
- in trade unions since 2010.
- in public hospitals in 2014.

In addition to public sector entities (which are often State-owned in France), many other entities are equally required to appoint a statutory auditor:

- endowment funds.
- credit institutions, saving banks, mutual funds under certain criteria.
- agricultural cooperatives.
- chambers of Commerce...

In all these entities, whether in the public sector or in the not-for-profit sector, the statutory auditor's engagement requires a deep technical knowledge of the specifics of the sector, particularly the accounting principles or the legal aspects of the sector or the management systems used.

1 What we do?

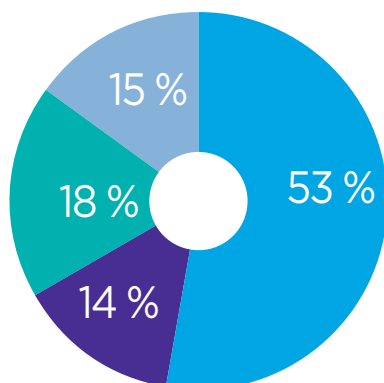
AUDIT ADAPTED TO SMALL ENTITIES

Since the Economic Modernisation Act, adopted in 2008, the law requires the auditors to perform their engagement in certain small entities in compliance with a specific professional standard, adapted to the size and issues of small entities. It has to be noted that complying with that specific standard still leads to performing an audit and issuing an audit opinion on the financial statements of the entity. It does not lead to a lower level of assurance. It is important to note that the European Union now recognizes the validity of such approach since article 26 (5) of Directive 2014/56/EU states that: "Where a Member State requires the statutory audit of small undertakings, it may provide that application of the auditing standards referred to in paragraph 1 is to be proportionate to the scale and complexity of the activities of such undertakings. Member States may take measures in order to ensure the proportionate application of the auditing standards to the statutory audits of small undertakings".

> The turnover of the profession is more than **2.6** billion euros for approximately **230,000** statutory audit engagements.

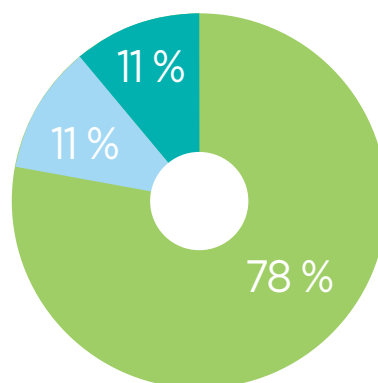
ENGAGEMENTS ACCORDING TO THE NUMBER OF EMPLOYEES

0 to 10 employees	122,000
11 to 20 employees	32,000
21 to 50 employees	42,000
More than 50 employees	34,000
Total	230,000



ENGAGEMENTS BY CATEGORIES OF ENTITIES

Categories of entities	
Commercial entities	78 %
Charities & foundations	11 %
Others	11 %



2 Who we are?



The « Compagnie Nationale des Commissaires aux Comptes (CNCC) » is the only representative body of the statutory audit profession in France. It is an independent institute placed under the auspices of the Ministry of Justice. The supervision of the profession is under the responsibility of the Haut Conseil du Commissariat aux Comptes (H3C), an independent authority created in 2003.

EUROPEAN HARMONISATION

The Statutory audit directive of 2006 has led to an increased harmonization of the organization and the practice of statutory audit in Europe. It has clarified the responsibilities of statutory auditors, their ethics and the conditions of their independence. It has introduced a system of public supervision of the profession in Europe including quality assurance.

It has also provided for the definition of an audit firm network and has set the requirement to use International Standards on Auditing (ISA) once they have been adopted at the European Union level.

It must be noted that prior to the directive of 2006, The French statutory audit profession already had a strong system of public supervision (the H3C, see above) since 2003. French professional standards were based on ISAs since 1999 and a system of inspections and quality control had also been established and conducted in connection with stock exchange regulator since 1983.

The European Audit Reform, launched in 2010, is now finalized at the European level with the publication of the Regulation (EU) N° 537/2014 and the Directive 2014/56/EU. We are now entering into the transposition period at the national level and it will certainly lead to major changes in the statutory audit market in Europe.

THE GOVERNANCE OF THE FRENCH INSTITUTE OF STATUTORY AUDITORS

The CNCC is governed by a National Council and a Board which support and promote the interests of the profession. The CNCC is in constant dialogue with the Public authorities for all issues of interest to the profession. It coordinates the actions of the Compagnies régionales des Commissaires aux Comptes (CRCC), ie the regional chambers of statutory auditors in France.

THE NATIONAL COUNCIL

Being the decision making body of the institute, its role consists in:

- ▶ Elaborating and approving the professional standards. There are 47 French professional standards (Normes d'exercice professionnel: NEP).
- ▶ Giving its opinion when required by the Ministry of Justice on draft laws and decrees.
- ▶ Submitting to the Public authorities all useful proposals relating to the professional organization and the audit assignment.

THE BOARD

Being the executive body of the institute, its main activities are:

- ▶ The coordination of the actions of the regional chambers of statutory auditors.
- ▶ The examination of the proposals made by the regional chambers.
- ▶ The prevention and conciliation of professional litigation between regional chambers.

Furthermore, it submits to the endorsement of the Ministry of Justice the professional standards, adopted by the National Council.

THE REGIONAL CHAMBERS OF STATUTORY AUDITORS (« COMPAGNIES RÉGIONALES DES COMMISSAIRES AUX COMPTES - CRCC »)

There are 33 « Compagnies régionales des commissaires aux comptes (CRCC) » in France and overseas in the French territories. Their main tasks are to:

- ▶ Defend the interests of the statutory auditors at the regional level.
- ▶ Participate in the quality control of statutory audit firms having non-PIEs clients.
- ▶ Ensure that their members respect the CPE requirements.
- ▶ Communicate with local actors and partners.
- ▶ Promote the profession to students, organize regular training activities and take part in university and school forums.

3 How we work?

THE COMMITTEES OF THE CNCC

The Committees of the CNCC are in charge of setting the professional standards and guidance. They set, in particular, the professional auditing standards (Normes d'exercice professionnel: NEP), which are ultimately endorsed by the Minister of Justice and published in the Official Journal of the French Republic, after the Minister of Justice has received the opinion of the H3C on the standard.

The Committees of the CNCC are also in charge of responding to specific questions from the practitioners and of undertaking studies on specific issues. Every year, they answer more than 500 questions from statutory auditors.

THE DEPARTMENT FOR THE STATUTORY AUDIT OF LISTED ENTITIES

Within the CNCC, one of its departments gathers the audit firms that audit listed entities.

Created in 2001 and endorsed by the Financial Security Act in 2003, the DMF department deals with the specifics of the audit engagement in listed entities. It liaises with the Autorité des Marchés Financiers (AMF), ie the stock exchange regulator.

THE INTERNATIONAL DEPARTMENT FOR AUDIT AND ACCOUNTING

The International Delegation for audit and accounting (« Délégation Internationale pour l'Audit et la Comptabilité », DIPAC) gathers the international affairs departments of the CNCC and of the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC), the French Institute of chartered accountants. The members of the DIPAC represent the French profession at international level and participate in the work performed in International and European organizations such as IFAC and FEE.

They meet regularly to liaise with representatives of other professional institutes from Europe and from the rest of the world.

Through its cooperation programs, the French profession plays an important role in the development of the accountancy profession, especially in French-speaking Africa, Central Europe, South East Asia, the Caribbean and Central America.

SPECIFIC REQUIREMENTS OF THE LAW AS PART OF THE ROLE OF STATUTORY AUDITOR

The French law also requires the statutory auditor to perform a number of specific obligations as part of its role as statutory auditor, such as the launching of an early warning procedure in case of uncertainties relating to the going concern of the entity. Such role helps prevent business failure. The duration of the audit engagement in France is six years, renewable without limit. The French law also requires the appointment of joint auditors for the audit of consolidated financial statements.

PROFESSIONAL STANDARDS, TECHNICAL AND ETHICAL GUIDANCE AND TOOLS

International auditing standards constitute the basis from which French professional standards (NEP) are established by the CNCC and adapted to the national context.

French auditors are subject to a national Code of ethics established by the Ministry of Justice and endorsed by a Decree. The French Code of ethics and the Commercial Code limit the provision of non-audit services to an audit client to those services which are directly related to the audit as defined by a professional standard.

The French profession considers that in a global economy, the implementation of global tools, being both technical and ethical, is a necessity since it helps having the same quality of audits and provides an equal level playing field for auditors in different countries.



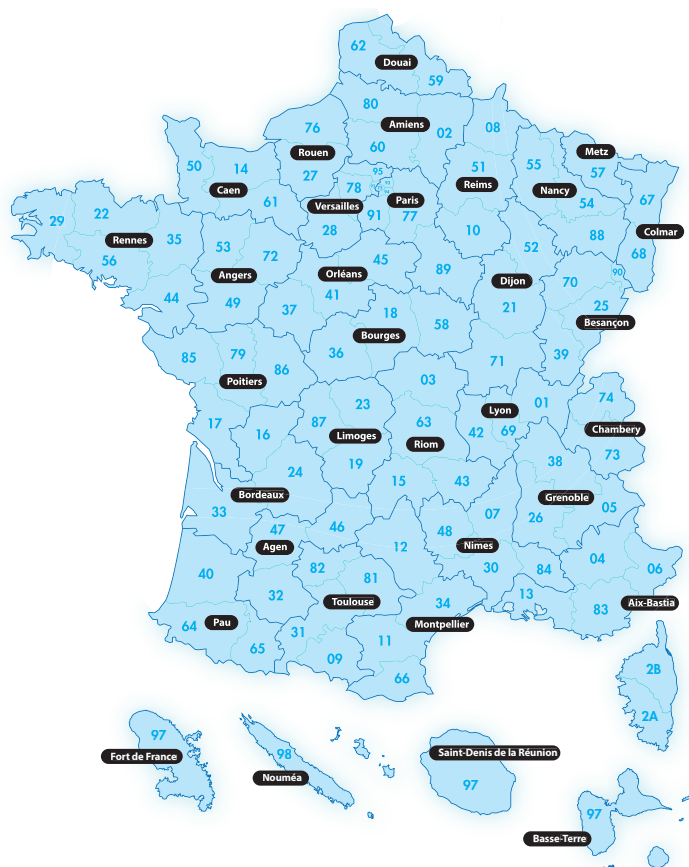
4 Where we are?

How to find a statutory auditor in France ?

Every auditor is registered in a regional chamber (Compagnie Régionale des Commissaires aux Comptes, CRCC).

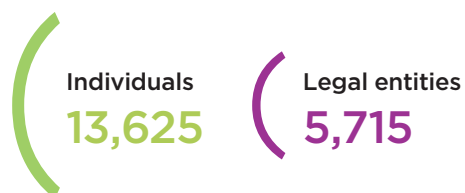
To find the appropriate CRCC, click on www.cncc.fr under “organization / les regions”

33 CRCC ORGANIZED ACCORDING TO 33 COURTS OF APPEAL



NUMBER OF AUDITORS

The french statutory audit profession consists of **13,625** statutory auditors (« Commissaires aux Comptes »), all of them in public practice.



5 Glossary



The statutory audit engagement

The “statutory audit engagement” leads the statutory auditor to issue an opinion on the financial statements of the audited entity. The statutory auditor can also provide other services (whether assurance or non-assurance engagements) directly related to the “statutory audit engagement”, such as issuing an opinion on interim financial statements or, for example, carrying agreed-upon procedures.

French Professional Standards (Normes d’exercice professionnel: NEP)

In conducting its engagement, the statutory auditor applies the professional standards, set by the CNCC and endorsed by the Ministry of Justice, after the latter has obtained an opinion from the French oversight body, the « Haut Conseil du Commissariat aux Comptes » (H3C). The French professional standards are based on the international auditing standards (ISA).

Directly Related Services (DDL)

Directly related to the statutory audit assignment, these services are performed at the request of the client. They include, for example, due diligences in the context of an acquisition, agreed-upon procedures or consultations on accounting matters.

Code of ethics

Adopted by a decree on 16th November 2005, it states the fundamental principles of the statutory auditor’s professional behaviour and ethics.

The Financial Security Act

Law adopted on the 1st August 2003; it aims to reinforce the legal provision of company’s governance. It establishes the French oversight body (H3C) and redefines the role and the statute of the French statutory auditor.

The Economic Modernisation Act

Law adopted in August 2008, it opened the way to a simplified approach for the statutory audit of the financial statements of certain small entities. Thus, since 1st January 2009, statutory auditors are required to comply with a specific so-called standard “Norme PE” to carry out their statutory audit engagements in certain small entities.

Public interest entities

“Public Interest Entities” mean companies whose securities and bonds are traded on a regulated market, such as the insurance undertakings, the banks and other specific entities.

The “Commissaire aux comptes”

The French Statutory Auditor.



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