

Foreword



In accordance with its legal mandate to supervise statutory auditors in France, the H3C deals with individual cases as

well as regulation issues at large.

In 2012, the H3C conducted a consultation and issued a report on the European Commission's audit reform proposals. The professional standards framework was enriched and a number of opinions were produced on ethical issues. In addition, the H3C started examining possible changes in the scope of duties of statutory auditors in light of the new economic and regulatory environment. Concerning inspections, over one thousand audit firms were inspected throughout the year: the improvements identified and areas of expected progress are highlighted in the H3C annual report. We also continued to participate actively in cooperation at the international and European levels. Negotiations initiated in 2012 led to the signing of cooperation agreements early in 2013 with our Swiss and American counterparts. These agreements are a clear sign of our commitment to increase collaboration with regulators worldwide. Furthermore, I wish to underline the commitment of the Board and the staff of the Haut Conseil to reaching our regulation objectives, namely, improving audit quality in an ever-evolving environment.

Christine Thin

Highlights Annual Report 2012

HAUT CONSEIL DU COMMISSARIAT AUX COMPTES

- The H3C is the central body of the statutory auditors' oversight system in France and was created by the Financial Security Act of 1 August 2003 (Loi de Sécurité Financière).
- The H3C, an independent public authority, has the specific responsibility in France to ensure cooperation with its counterparts in charge of the oversight of the audit profession.
- Its actions emanate from the global trend to reinforce the credibility of the statutory audits of annual accounts and consolidated accounts as provided by the European directive 2006/43/CE.
- The H3C's organisation is defined by law and decree and is founded on:
 - The independence of the Board, the competence and diversity of professional backgrounds of its members. The Board is organised in such a way as to avoid conflicts of interest.
 - Under the authority of the Secretary General, the directorates prepare the Board's work and assist the H3C's specialised 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 jurisdictional matters.
 - At end December 2012, the Secretariat General was composed of 42 officers.
- The H3C has been financially autonomous since 2009. Its annual resources totalled EUR 8.8 million in 2012.

2012 Inspections Schedule

PIE audit firms (holding PIE engagements)

- 146 PIE audit firms inspected, including 4 firms belonging to large international networks
- 592 engagements inspected, including 260 PIE engagements

Non-PIE audit firms (holding non-PIE engagements)

- 921 non-PIE audit firms inspected
- 1,875 engagements inspected

Under article R.821-26 of the Commercial Code (code du commerce), **Public Interest Entities** are: entities holding transferable securities admitted to trading on a regulated market; charitable organisations; social security organisations mentioned in article L. 114-8 of the **Social Security Code** (code de la sécurité sociale); credit institutions; insurance companies; pension fund organisations governed by title III of book IX of the **Social Security Code**; private health insurance organisations or private health insurance groups governed by book II of the Mutual Insurance Code (code de la mutualité). A PIE audit firm can hold both PIE and non-PIE engagements.

Results of inspections

- The majority of PIE audit firms, especially those belonging to large international networks, implemented the recommendations issued to them.
- Progress was made on auditing procedures and methodology. For the majority of audit engagements (89% of engagements held by PIE audit firms and 93% for the other audit firms), the opinions issued were supported by appropriate audit work.
- In contrast, certain procedures at the PIE audit firms require further improvement, namely independent quality control reviews, or the analysis and monitoring of risks affecting independence. Training for auditors on the specificities of statutory audit is also necessary. In addition, improvements need to be made in the application of auditing standards, in documenting audit work performed and the "justification of the assessments" within the audit report.
- 11% of inspected files held by PIE audit firms (65 engagements out of 592, of which 33 PIE) and 7% for non-PIE audit firms (68 engagements out of 1,875), revealed that the audit opinions were not supported by appropriate audit work (based on work performed, or documents included in the work files).
- The inspections once again demonstrated the diversity of situations encountered by virtue of the size and profile of the audit firms. In the same vein as last year, improvements still need to be made at the non-PIE audit firms particularly with respect to their organisation, implementation of regulatory obligations, training for auditors and documentation of work performed.

H3C recommendations

1. **Comply fully with recommendations issued by the H3C's Secretary General**
2. **Ensure the auditor's independence vis-à-vis the entities audited, by:**
 - Paying attention to the prevention and treatment of situations entailing a risk of impairment of independence, and informing the H3C of any such situations.
 - Avoiding situations where services performed are incompatible with the statutory audit.
3. **Adopt a specific organisational format for the purposes of statutory audit where the audit firm has a multi-disciplinary activity**
4. **Improve training of those involved in statutory audits**
5. **Ensure that independent quality control review is effective**
6. **Improve the level of audit procedures:**
 - Documenting audit procedures, especially those applied to material accounts.
 - Applying auditing standards fully.
 - Distributing tasks equally among joint statutory auditors both at a quantitative and qualitative level, when the financial statements are subjected to a joint audit.
 - Demonstrating professional scepticism vis-à-vis accounting estimates and data prepared by the entities being audited.

The H3C also reminded audit firms that they must fully comply with all regulatory obligations (measures related to the prevention of money laundering and the financing of terrorism, requests to diverge from the audit hours volume threshold, training).

Follow-up to inspections

PIE audit firms (2009-2011 triennial inspection plan)

- 540 individual recommendations were addressed to inspected PIE audit firms
- 30% of inspected audit firms were asked to implement an improvement plan
- The Secretary General issued referrals to the Public Prosecutor regarding 15 PIE audit firms

Non-PIE audit firms (2008-2013 multi-annual inspection plan: two thirds of results exploited)

- 2,000 individual recommendations were issued to non-PIE audit firms
- 16% of inspected audit firms were asked to implement an improvement plan
- The Secretary General issued referrals to the Public Prosecutor regarding 81 non-PIE audit firms



- The H3C has been entrusted with ensuring compliance with professional ethics and the independence of statutory auditors.
- The H3C set up a specialised committee to facilitate dealing with the questions it receives. The committee's mission is to decide whether the questions raised to the H3C are of general interest and hence deserve to be made public or if they require a direct response to the submitter.
- In 2012, the H3C issued opinions on the following topics:
 - 34 direct responses were issued for individual situations, regarding:
 - Incompatibility, restrictions, prohibited services
 - Appointments, termination of functions
 - Independence, impartiality and conflicts of interest
 - Consecutive engagements

Distribution of audit work between joint statutory auditors	opinion 2012-01
Compatibility of status of statutory auditor with status of "certifier" (act n° 2010-476)	opinion 2012-03
Do statutory auditors and certified public accountants belong to the same network in light of their participation in a joint company?	opinion 2012-05
Can the expert involved when a company changes its legal form be appointed as the statutory auditor for the same entity?	opinion 2012-06
Family link between a statutory auditor and a certified public accountant working for the same entities	opinion 2012-07
Can the inspectors of a public organisation consult the work files of a statutory auditor when the professional secrecy obligation has been lifted?	opinion 2012-11

- The H3C rules on decisions pertaining to registration, discipline and fee claims of statutory auditors.
- In this respect, the H3C was submitted 17 disciplinary decisions in 2012, which mostly involved procedural issues. In all, the number of jurisdictional affairs was slightly higher than in the previous year.

	2012	2011
Discipline	4	0
Fees	4	1
Registration	10*	6
TOTAL	18*	7

*including one provisional judgement



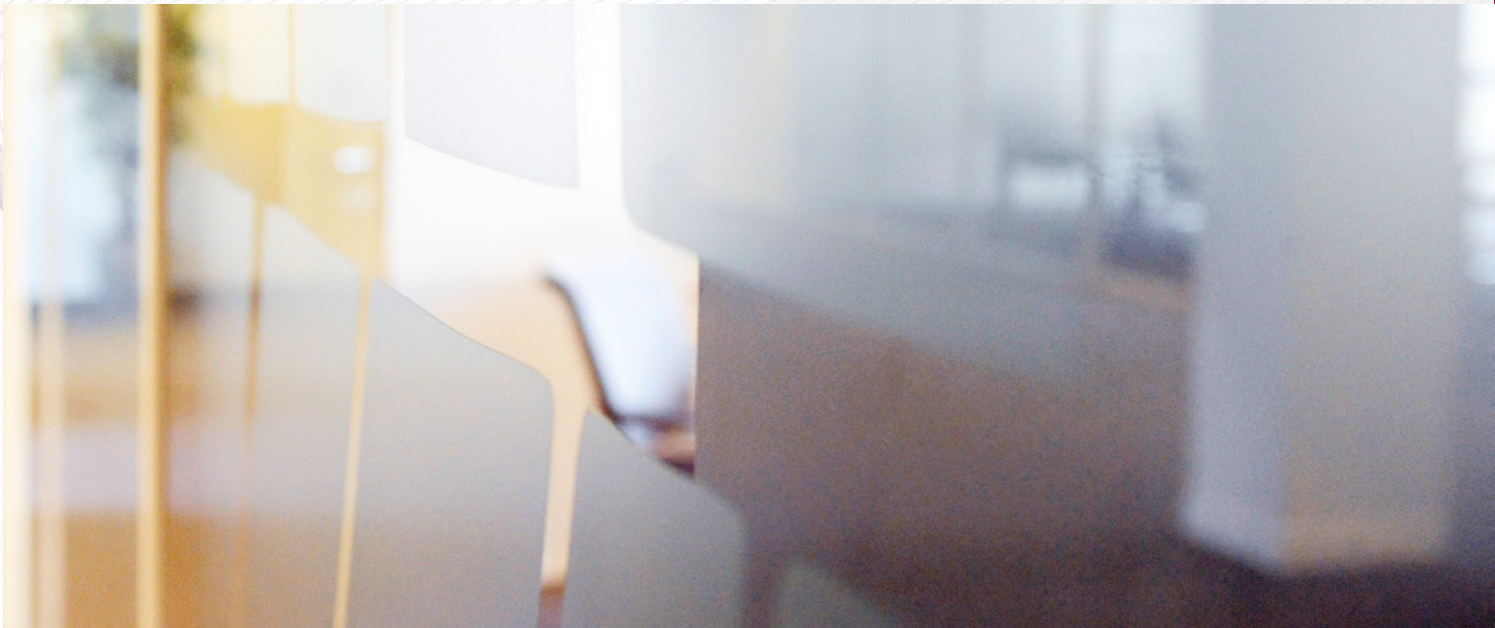
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European and international cooperation



- Following the publication of the European Commission's audit reform proposals, the H3C carried out consultations in February 2012 with the representatives of French stakeholders. A report was published on 3 July 2012 setting out its positions as well as a summary of the work done by the working group. The report also includes recommendations on the principal measures proposed.
- Concomitant to its active participation in the EGAOB (European Group of Auditors' Oversight Bodies) and the EAIG (European Audit Inspections Group), the H3C co-signed a number of joint letters with its counterparts in 2012 and early 2013 for consultations on international audit and ethical standards emanating from international standard-setters.
- Moreover, the H3C signed cooperation agreements for information exchange with its Swiss and American counterparts. The agreement with its American counterpart also includes provisions for joint inspections.
- The H3C continued its contribution to the work of the IFIAR (International Forum of Independent Audit Regulators). In 2012, the H3C participated in the first global survey of audit inspection findings bringing together issues identified by IFIAR members located around the world. The survey in particular highlights the scope of inspection activity as well as deficiencies identified by national regulators.

- The duties of statutory auditors are set out in legal and regulatory texts, and in particular in auditing standards approved by the Minister of Justice.
- 2012 saw the adoption of 3 new standards. Two standards were approved on 26 July 2012: “materiality during the planning and conduct of audits”; and “assessment of misstatements revealed during an audit”. These standards have been defined to reflect changes in international professional standards and serve to clarify how the statutory auditor shall utilise materiality and planning thresholds. These thresholds apply throughout the audit, from the definition of the extent of audit work to be performed to assessing the impact of misstatements on the accounts. A standard on the specificities of the audit of the accounts of social security bodies was approved on 20 December 2012.
- The H3C also contributed to the drafting of an opinion prepared by the French professional audit body (the CNCC) on the risks associated with auditing the accounts of political parties and groups and the duties incumbent on statutory auditors involved in such engagements.
- Lastly, the H3C is in the process of examining the scope of duties of statutory auditors in light of the changes in the economic and regulatory context. This scope of duties is defined in the Code de Commerce, which provides, in particular, the rules on the provision of non-audit services.



*The complete french version of the H3C's annual report
for 2012 is available at www.h3c.org*
