

Periodic Inspections Guide



H3C | Haut Conseil
du Commissariat aux Comptes





Periodic Inspections Guide

This document is a free translation into English
of the original French guide.
In the event of any perceived inconsistencies between
the two versions, the French version will prevail.

The *Haut Conseil du commissariat aux comptes* adopted the following
periodic inspections guide on July 12, 2012.
This guide was drafted after consultation with the *Compagnie
nationale des commissaires aux comptes* (CNCC).

FOREWORD

Statutory auditors are subject to periodic inspections performed in accordance
with the guiding principles under decision 2009-02 of the *Haut Conseil du
commissariat aux comptes*. In application of principle 7 of this decision, the guide
describes the terms on which the inspections are carried out.
The contents of this guide may be modified, if necessary.



DEFINITIONS	6
1. LEGAL FRAMEWORK FOR AUDIT OVERSIGHT	7
1.1. International cooperation	
2. RESPONSIBILITY OF THE INSPECTIONS	9
2.1. Performance of inspections	
2.2. Supervision	
2.3. Collaboration with the <i>Compagnie nationale</i>	
2.4. Obligations of the inspected firm	
3. OBJECTIVES OF THE INSPECTION	13
3.1. Notion of firm	
3.2. Global and risk-based approaches	
3.3. Frequency and length of inspections	
4. INSPECTION TERMS	15
4.1. Selection of firms to be inspected	
4.2. Inspection stages	
5. REPORTING ON INSPECTIONS	19
5.1. Draft report	
5.2. Exchange of views	
5.3. Final report	
6. FOLLOW-UP AFTER INSPECTIONS	21
6.1. Recommendations	
6.2. Follow-up	
6.3. Referrals/Sanctions	
6.4. Issues of principle	
7. ACCESS TO DOCUMENTS FROM THE INSPECTED FIRMS AND DATA PROTECTION	23
7.1. Professional secrecy	
7.2. Transmission of documents by the inspected firms	
7.3. Protection of data communicated by the inspected firms	
8. INSPECTORS	25
8.1. Competence	
8.2. Ethics	
8.3. Assignments	
8.4. Confidentiality	
9. COOPERATION	29
9.1. AMF	
9.2. ACP	
9.3. Europe and abroad	

“Public-interest entities” under article R.821-26 of the French commercial code

- Entities holding transferable securities admitted to trading on a regulated market;
- Charity organisations;
- Social security organisations mentioned in article L. 114-8 of the French social security code (*code de la sécurité sociale*);
- Credit institutions;
- Insurance companies;
- Pension fund organisations governed by title III of book IX of the *code de la sécurité sociale*;
- Private health insurance organisations or private health insurance groups governed by book II of the *code de la mutualité* (mutual insurance code).

“PIE” audit firms and “non-PIE” audit firms

A firm is deemed a “PIE” audit firm if it holds PIE audit engagements regardless of their number, while a firm with no “PIE” audit engagements is deemed a “non-PIE” audit firm.

Firm: definition for the purpose of periodic inspections

With respect to periodic inspections, a firm is a group of registered professional organisations that carry out statutory audit engagements, and which share common procedures. The professional organisations can be an individual practitioner alone or a company with one or a number of practising individuals.

All statutory auditors, whether they are employed, partners or non-partners, who conduct engagements in each identified professional organisation, are subject to inspections.

Practitioner inspectors

These are professionals in practice.

1. Legal framework for audit oversight

The *Haut Conseil du commissariat aux comptes* is an independent public body under the auspices of the Minister of justice. Its mission is to supervise the audit profession with the collaboration of the *Compagnie nationale des commissaires aux comptes*. It also ensures that the code of ethics is respected and oversees the independence of statutory auditors.

Statutory auditors are subject to periodic inspections as provided for in article L. 821-7 b of the commercial code. These inspections are carried out in compliance with the guiding principles contained in decision 2009-02 of the *Haut Conseil*.

Periodic inspections also fall within the framework of the 8th directive 2006/43/CE of 17 May 2006 relative to statutory audits of annual accounts and consolidated accounts; and in Commission recommendation 2008/362/CE of 6 May 2008 on external quality assurance for statutory auditors and audit firms auditing public interest entities.

The *Haut Conseil* defines the framework, guidance and terms of the inspections, which:

- It carries out either directly or delegates to the *Compagnie nationale des commissaires aux comptes* and *compagnies régionales*,
- Are carried out directly by the *Compagnie nationale* and the *compagnies régionales*.

The *Haut Conseil* supervises the inspections, issues recommendations during the follow-up phase, and ensures that they are properly carried out.

The inspections are performed by inspectors who are directly employed by the *Haut Conseil* and who are non practitioners or by the *Compagnie nationale des commissaires aux comptes* or *compagnies régionales*. The conditions and terms of the inspections are defined by the *Haut Conseil*.

Inspections are carried out in collaboration with the *Autorité des marchés financiers* (AMF) when the statutory auditors subject to such inspections certify the accounts of entities or organisations under AMF jurisdiction¹.

1.1. International cooperation

One of the *Haut Conseil's* missions is to establish relations with the audit regulators of other jurisdictions.

¹ Entities issuing transferable securities admitted to trading on a regulated market or offered to the public on a multilateral trading system which complies with legal and regulatory texts aimed at protecting investors against insider

In this respect, the *Haut Conseil* can, when requested, transfer information or documents in its possession or that it obtains to:

- The competent oversight authorities of other EU Member states;
- To the competent oversight authorities of non-EU member states providing that there are reciprocal working arrangements, that these authorities comply with the obligations of professional secrecy based on the same guarantees as in France, and that they have signed a cooperation agreement with the *Haut Conseil*.

2. Responsibility of the inspections

2.1. Performance of inspections

The *Haut Conseil* supervises inspections of the audit firms that perform statutory audit of public interest entities (“PIE”), or “PIE” audit firms.

“PIE” audit firm inspections are carried out by inspectors directly employed by the *Haut Conseil*. These inspectors report to a director who assists the *Haut Conseil’s* Secretary General. The Secretary General is the chief of inspectors.

The *Haut Conseil* can also delegate inspections of “PIE” audit firms to professional bodies. These inspections are carried out by practitioner inspectors under the direct supervision of the *Haut Conseil’s* Secretary General, assisted by a team of inspection supervisors. The terms of delegation, set by the *Haut Conseil*, are laid down in decision 2009-04.

Audit firms that do not certify “PIE” accounts, or “non-PIE” audit firms, are inspected by professional bodies under the terms defined by the *Haut Conseil*. These bodies designate practitioner inspectors to perform the inspections.

This manner of organising inspections based on “PIE” or “non-PIE” audit firm criteria remains flexible so as to allow the *Haut Conseil* to modify the designation of a firm within a pre-determined category.

When a number of practitioner inspectors are designated to inspect a firm, one of the inspectors is designated to head the inspection.

2.2. Supervision

The *Haut Conseil* is responsible for supervising the inspections. The Secretary General of the *Haut Conseil* leads and supervises the inspections process.

The Secretary General of the *Haut Conseil*, assisted by the inspection department, is in charge of the directly employed inspectors. The supervision department collaborates with the Secretary General to examine the documents covering all aspects of the inspections performed by the professional bodies. The Secretary General also participates in the inspections process. In this respect:

- For “PIE” audit firms, the Secretary General reviews the work in progress during the key stages of the inspections process, namely drafting of the inspection plan, performance of inspections on-site, and writing of draft and final reports. The Secretary General also notifies the individual reports to each of the inspected firms.
- For “non-PIE” audit firms, the Secretary General receives and examines the individual inspection results that are sent to the inspected firms. These results comprise the draft report accompanied by

appendices, the response from the inspected firm, the final report and finally, the recommendations for remedial action formulated by the *compagnies régionales* to the inspected firms.

Every year, the *Haut Conseil's* Secretary General presents a report to the *Haut Conseil* on the periodic inspections performed, while guaranteeing total anonymity of the cases raised.

2.3. Collaboration with the *Compagnie nationale*

Every year, the *Compagnie nationale* notifies the *Haut Conseil* of the declarations of activity made by the statutory auditors and audit firms.

Prior to the intervention of the inspectors, a questionnaire is sent to the inspected firms. Its purpose is to compile information about the firm. The *Compagnie nationale* prepares this questionnaire (solely or in collaboration with the *Haut Conseil*) for the "PIE" audit firms, while the *compagnies régionales* prepare the one for the "non-PIE" audit firms.

The information from the declarations of activity made by the statutory auditors is mentioned in the questionnaire. This step involves a prior identification of the professional organisation, to determine the scope to be inspected, and requires confirmation by the inspected firm. This process is run by the *Compagnie nationale* alone or in coordination with the *Haut Conseil*.

The *Compagnie nationale* ensures that it has the appropriate means to carry out and coordinate the inspections it has been delegated and in this regard, drafts a list of practitioner inspectors and sets up a secretariat.

With respect to the inspections delegated by the *Haut Conseil*, the *Compagnie nationale's* missions are:

- To enforce the *Haut Conseil's* decisions,
- To carry out the inspection programme established by the *Haut Conseil*,
- To propose a list of practitioner inspectors and their assignments to the *Haut Conseil*,
- To prepare the specific inspection training methods for practitioners,
- To ensure coordination of inspections and on-going relations with the *Haut Conseil*,
- To collect all the information needed for the inspections process from the *compagnies régionales* and audit firms,
- To collect all the statistics that the *Haut Conseil* requires for inspections,
- To guarantee the smooth running of the inspections process,
- To inform the *Haut Conseil* of the progress in inspections,
- To analyse and summarise the results of the inspections performed and inform the *Haut Conseil* of the delegated inspections it has performed over the year.

Draft reports made for “non-PIE” audit firms are reviewed by the *compagnies régionales*. This review serves to ensure that the draft report is coherent and legible. In this light, inspectors can be asked for supplementary information or to perform further investigations.

The *compagnie régionale* is charged with notifying the draft report, including appendices, to the inspected “non-PIE” audit firms so that they can submit their observations. The president of the *compagnie régionale* then transmits the final report to the inspected “non-PIE” audit firms. The president of the *compagnie régionale* may include a letter requesting remedial action to be taken by the firm based on the inspector’s conclusions. This letter also sets out a series of measures that could be taken by the *compagnie régionale* subsequent to the inspection (namely, re-inspection / follow-up on a particular case / request for documents / request for a private meeting with the president or the quality control officer). The letter also mentions that the Secretary General of the *Haut Conseil* is entitled to issue recommendations during follow-up on inspections.

Each year, the *Compagnie nationale* transmits a report to the *Haut Conseil* on the delegated periodic inspections it has undertaken. The report serves to confirm that these periodic inspections have been implemented within the framework, guidance and terms decided by the *Haut Conseil*.

A coordination committee has been set up between the *Haut Conseil* and the professional bodies and comprises members from each institution. The aim is to build a coherent and homogeneous inspection system (regardless of who would be implementing it and which inspection method would be retained).

2.4. Obligations of the inspected firms

A firm cannot refuse a periodic inspection but must facilitate the process by providing all the requested documents within the required timeframe.

The firm undergoing the inspection is required to provide all the information and documents requested without opposing professional secrecy.

The firm undergoing inspection transmits the documents and provides explanations for: a) each audited entity, b) the conduct of the engagements within all audited entities and c) the organisation and activity of the professional network that it belongs to, as well as the individuals or groups he/she is linked to.

2. Responsibility of the inspections

In addition, the inspected firm must exercise all due diligence to ensure compliance with the rules concerning independence and potential incompatibilities as provided for in Article L. 822-11 of the commercial code and in the code of ethics. In this respect, the inspected firm transmits all documents and provides all the information to justify compliance with these rules, particularly concerning the services provided by the members of its network.

3. Objectives of the inspection

3.1. Notion of firm

The *Haut Conseil* has retained the notion of firm as the unit of control and starting point for periodic inspections. If this notion of firm was not adopted, then inspections would be carried out individually on professional structures even though they could be part of joint organisations or use the same methods or discipline. This notion clearly fits into the organisation of the statutory auditors' professional structures in that it factors in all the groups and networks linked to these statutory auditors.

3.2. Global and risk-based approaches

Periodic inspections are carried out in compliance with a) the legal texts and policies that apply to statutory auditors (including the code of ethics), and b) the professional audit standards in force during the exercise of audit engagement. Periodic inspections are carried out on statutory audits engagements, and include all the services related to each statutory audit.

A global approach is employed when a firm undergoes a periodic inspection. The aim of this approach is to verify the quality of the audits performed by the statutory auditors in light of the environment of the engagements and particularly with respect to how effective their organisation and procedures are.

This approach concerns both "PIE" and "non-PIE" audit firms.

For firms undergoing inspection, this approach serves to: a) prove the existence and effectiveness of the organisation and procedures that guarantee audit quality; b) ensure correct performance of the statutory audit by the signatories for a selection of engagements; and c) ensure that within this selection, the procedures are effective. Compliance with professional audit standards and the code of ethics is also verified. The selection of engagements should be representative of the firm's business.

When a firm also has an internal quality control set-up, the inspection will focus on evaluating how this set-up functions and how effective it is on a selection of engagements.

In the event that a firm is required to publish a transparency report, the inspection will focus on the coherence of the report with the findings made by the inspectors.

The global approach to inspections is recommended by the European Commission and has been adopted by several *Haut Conseil's* counterparts.

The *Haut Conseil* is also entitled to target certain inspections and respond to specific requests from other regulatory bodies or public oversight bodies in the framework of their cooperation.

Initial inspections serve to acquire information on how the firms function and all inspections subsequent to these serve to build on this information.

The global approach is complemented by a risk-based approach which can lead to an increase in the number of inspections.

“Firm risk” allows for a classification, according to the strengths and weaknesses of audit firms based on their audit quality the type of recommendation² addressed to them and finally, any constraints experienced by inspectors during the initial inspection.

This “firm risk” classification is combined with an “entity-risk” approach to entities audited by statutory auditors. Initially, two groups will be considered as presenting “entity risk” mainly due to their visibility and size: a) entities issuing transferable securities admitted to trading on a regulated market (under the jurisdiction of the Autorité des Marchés Financiers – AMF) and b) credit institutions (under the jurisdiction of the Autorité de Contrôle Prudentiel – ACP).

However, this identification will most likely require fine tuning during a subsequent risk analysis. The risk-based approach will be finalised following consultation with the AMF and the ACP in relation to “entity risk”.

3.3. Frequency and length of inspections

The minimum frequency of inspections is set by law. As a rule, statutory auditors are inspected once every six years. However, statutory auditors that audit “PIE” (as laid down in Article R.821-26 of the commercial code) are inspected every three years.

The *Haut Conseil* is entitled to modify the frequency and number of inspections.

All firms are informed ahead of time of their inspection. Once a periodic inspection is performed, a report with all the main conclusions is drafted and sent to the inspected firm.

However, any additional information requested from a firm that has already received a final inspection report cannot be considered as a new periodic inspection.

A follow-up on a previous inspection involves the issuance of a report and represents a new periodic inspection.

The length of a periodic inspection depends on the size of the inspected firm and the type of engagements held. A timeframe (in hours) is set according to the number of engagements held and the risk factors identified through the risk-based approach.

² Including or excluding a request for a remedial action plan.

4. Inspection terms

4.1. Selection of firms to be inspected

The *Haut Conseil* has set up a multi-annual programme of inspections that is in line with the regulatory inspection requirements. In this respect, a cycle of inspections was completed at the end of 2011 for the "PIE" audit firms and will terminate in 2013 for the "non-PIE" audit firms. The second phase will last until 2014 for "PIE" audit firms and up until 2019 for "non-PIE" audit firms.

This inspection plan is updated each year to factor in changes in statutory auditors practising in each firms who do or do not hold "PIE" engagements, as well as the number of firms that are inspected each year. This update is based on annual declarations of activity made by the statutory auditors and corroborated by information provided by the entities oversight bodies (namely, AMF and ACP).

Each year, the *Haut Conseil* decides on an inspection programme in line with the multi-annual plan. In particular, this programme indicates the number of firms to be inspected during the year.

The Secretary General of the *Haut Conseil* defines the annual nominative list of firms to be inspected.

This is based on the lists transmitted by the *Compagnie nationale* and the *compagnies régionales*.

4.2. Inspection stages

The inspection of a firm is based on the following stages:

- Collating of initial information from the firms;
- Drafting of an inspection plan;
- Performing of inspections on-site;
- Creation of a draft report;
- Organisation of the exchange of views procedure ;
- Drafting of the final report.

During inspections, the inspectors use the same tools to control both "PIE" audit and "non-PIE" audit firms. These tools aim to facilitate the preparation, performance and findings of the inspections. They give the inspectors leeway to exercise their professional judgement and can be adapted to the size and activity of the inspected firm.

The first stage consists of notifying the firm registered in the annual inspection programme and requesting confirmation of the scope of the professional structures making up the firm. The latter could take the form of various statutory audit structures that share common procedures. The firm then has 15 days to provide a response from the day it receives the letter.

In the next stage, an ad hoc questionnaire is addressed to the inspected firm. The aim of the questionnaire is to obtain information about the firm, its activity, its presence in business areas or professional sectors and its organisation.

The questionnaire is a preliminary document that allows the inspectors to obtain all the information they need to understand the professional structures that will be subject to an inspection, and hence plan the inspections. Two types of information are contained in this document:

- Information from the *Compagnie nationale*'s database originating from the declarations made by the statutory auditors (declarations of activity and professional structure) and which will require confirmation from the inspected firm.
- Additional data derived from the information mentioned above, namely, general information about the firm (professional structure, activity, headcount), its organisation, training, statutory audit techniques utilised etc.

Each firm is required to fill in the questionnaire and send it back within 15 days of reception. Directly inspected "PIE" audit firms send their questionnaire to the Secretary General of the *Haut Conseil*, while delegated "PIE" audit firms send theirs to the *Compagnie nationale*, who then transmits it to the Secretary General of the *Haut Conseil*. "Non-PIE" audit firms transmit their questionnaire to the *compagnie régionale*.

This information is instrumental in determining a firm's profile and analysing any risks that may be incurred by a firm with regard to its activity and organisation.

Based on this information, the inspector defines an inspection plan which enables him/her to analyse the risk factors that could affect audit quality due to the firm's environment, its organisation or its activity.

When examining the above-mentioned documents, the inspector may contact the inspected firm. The plan is an aid for the inspector to collect information and analyse the risks linked to the firm.

Once this stage is completed, the inspectors go on-site and define a plan for their inspections in collaboration with the audit firm.

The inspectors conduct a series of meetings with management and the staff in charge of the firm's organisation and procedures, while also consulting existing documentation. The aim is for the inspectors to take stock of the procedures implemented in the firm and conduct assessments on them. The scope of the inspections varies from firm to firm.

Once the inspectors have assessed the procedures, they proceed with inspecting the firm's audit engagements.

The inspectors control whether the firm's procedures and methods have been applied correctly based on a sample of engagements. The latter are selected either randomly or using a risk-based approach. For "PIE" audit firms, priority is given to the selection of "PIE" engagements.

In order to be selected, the engagements must meet the following criteria:

- Account for around 10% of total audit hours at the inspected firm;
- Target sectors or specific situations that may be considered at risk by the *Haut Conseil*;
- Be subject to a risk-based approach (applied to entities audited by statutory auditors, and in particular, after consultation with the AMF and the ACP; and be based on the analysis of declarations of activity, namely, the firm's budget allocations, relative weight of audit engagements in the firm's activity, joint audits, opinions (qualifications) and alert procedures, etc.;
- Enable close monitoring of a number of current issues themes defined by the *Haut Conseil* and linked to economic and financial trends;
- Spread the inspections over a number of engagement partners and / or engagement signatories, without the need to monitor all the partners.

It should be noted that inspection of an engagement:

- Is either "targeted". In this case, it is based on a certain number of themes defined by the *Haut Conseil*, or on the inspection of significant risk areas, for the opinion. This type of inspection can lead to the issuing of a recommendation on audit quality and if need be, identification of weaknesses in the conduct of the audit mission which could challenge the reliability of the opinion;
- Or takes the form of a "review of opinion" performed by the statutory auditor. In this case, the inspection covers all the audit work performed by the firm, when the engagements do not represent an important number of inspection hours. This type of inspection can lead to identification of weaknesses in the conduct of an audit engagement which could challenge the reliability of the opinion.

In all cases, the inspection always includes a follow-up on recommendations.

The inspector transmits a list of engagements to be inspected, giving the inspected firm enough time to get organised. He/she may, if needed, modify the initial list of engagements based on the outcomes of the on-site inspection, and particularly where there are discrepancies in the firm's organisation and procedures. The aim is to ensure that the identified risks have not impacted the audit work performed on the engagements. In addition, the inspector may also select other engagements, chosen randomly, without giving any notice to the firm.

4. Inspection terms

Inspections cover the audit of financial statements from the last financial year. They can also be carried out on the part of the work performed by the joint auditor where the engagements are joint audits.

5. Reporting on inspections

Throughout the inspection process, an oral exchange of views takes place between the inspected firm and inspector. This can take the form of meetings with the representatives of the firm in order to validate certain points orally. At least one meeting must take place on-site at the end of an inspection process.

The inspector deals with the signing statutory auditor(s) but could also liaise with another partner or colleague in the firm, or external person who is a member of the team involved in the inspection, or the quality control manager.

The inspector presents his/her findings by firm. A draft report is written according to a set model, and transmitted for an exchange of views by the inspected firm. Once the on-site inspection is over, the practitioner inspectors have 15 days to write the draft report.

5.1. Draft report

The draft report contains information relating to the inspection itself, to the firm's organisation and to the sectors in which the firm is present. It presents the inspector's findings and may also contain a proposal for remedial action.

The results of the firm's inspection collated in a single document, drafted by the inspector, and to which are attached the appendices relating to the inspection of the firm's procedures and engagements.

5.2. Exchange of views

The *compagnie régionale*, in liaison with the practitioner inspector, implements the procedure for the written exchange of views for "non-PIE" audit firms. The procedure for "PIE" audit firms is implemented by the inspector in collaboration with the Secretary General of the *Haut Conseil*. The AMF participates in this process if the statutory auditors hold engagements of entities under its jurisdiction.

Each inspected firm has 15 days to convey its written observations from the time the draft report is notified. However, an extension can be provided on the firm's request.

The draft report, accompanied by its appendices and observations of the inspected firm, is transmitted to the AMF if the inspected firm holds engagements of entities under its jurisdiction.

If deemed necessary, a meeting can be organised for an exchange of views between the representative of the inspected firm, the inspector, and the Secretary General of the *Haut Conseil* (for "PIE" audit firms) or a member of the *compagnie régionale* (for "non-PIE" audit firms) and an AMF representative, if relevant.

In the event that the firm does not respond or indicates that it has no observations concerning the draft report, the office of the Secretary General of the *Haut Conseil* (for “PIE” audit firms) or the *Compagnie régionale* (for “non-PIE” audit firms) informs the inspector who then proceeds to establish a final report that is identical to the draft report.

If the inspected firm does issue observations, they are sent to the inspector to analyse at his/her earliest convenience. This could lead to changes in the report

5.3. Final report

The final report includes any changes made following the exchange of views. The AMF’s observations are included in the appendices of the final report, in case the statutory auditors hold engagements of entities or organisations under its jurisdiction.

The final report is drafted by the inspector.

The final report is then transmitted to the representative of the inspected firm by the office of the Secretary General of the *Haut Conseil* for “PIE” audit firms and by the president of the *compagnie régionale* for “non-PIE” audit firms.

The final report for “PIE audit firms”, with appendices attached, is also sent to the AMF and the *Compagnie nationale* (for delegated inspections).

The final report for “non-PIE” audit firms, with appendices attached, along with the draft report and the observations made by the inspected firm and by the AMF, if relevant, are sent to:

- The Secretary General of the *Haut Conseil*,
- The AMF, if the statutory auditors hold engagements of entities or organisations under its jurisdiction,
- The *Compagnie nationale*.

6. Follow-up after inspections

6.1. Recommendations

If it deems necessary, the Secretary General of the *Haut Conseil* issues recommendations to the inspected firms.

The Secretary General of the *Haut Conseil* receives all the remedial action requests made by the *compagnies régionales*; in this manner, it is informed of all the actions that these bodies plan to take following the inspection process. The office of the Secretary General of the *Haut Conseil* also examines these documents in order to issue individual recommendations to the firms concerned.

The recommendations can also be accompanied by follow-up measures to ensure that they have been taken into account.

The Secretary General of the *Haut Conseil* may also ask the firm for additional information in relation to the recommendation issued. In addition, the firm can be requested to provide a remedial action plan highlighting all the corrective measures it will take to rectify the identified deficiencies.

In its annual report, the *Haut Conseil* issues general recommendations to the statutory auditors especially when the deficiencies recorded during inspections occur frequently.

6.2. Follow-up

Once the Secretary General of the *Haut Conseil* has issued the recommendations, a follow-up procedure is implemented to ensure that the firms have taken the corrective measures.

For its part, the inspected firm must respond within a reasonable time to the recommendations made following its inspection.

When the identified deficiencies are not considered major, then the corrective measures taken by the firm will be checked during a future periodic inspection.

In the event that deficiencies are found in the conduct of the audit, a follow-up on measures to be taken by the firm can be planned the year following the inspection.

In more serious cases, a referral can be filed at the public prosecutor's office

6.3. Referrals/ Sanctions

When necessary, the Secretary General of the *Haut Conseil* may refer to the public prosecutor.

The regional disciplinary chamber can be notified for referral by Minister of justice, the public prosecutor, the president of the *Compagnie nationale des commissaires aux comptes* or the presidents of each *compagnie régionale*.

In the event that a firm does not follow up on the recommendations issued, it will be subject to sanctions where necessary.

6.4. Issues of principle

During the periodic inspection phase, the Secretary General of the *Haut Conseil* can refer to the *Haut Conseil* when examination of inspection documents reveals an issue of principle that requires an opinion from the *Haut Conseil*, or when the inspection reveals an issue of this nature.

7. Access to documents from the inspected firms and data protection

Inspectors must have access to all the documents required for the inspection, whatever form they may take.

7.1. Professional secrecy

All persons that participate in the inspection are bound by the obligations of professional secrecy.

In this respect, the inspectors may not use, or appear to use, their function or any confidential information obtained in the performance of their mission, for the benefit of any person or entity unrelated to the inspection. They are not allowed to resort to any form of favouritism, to lose their independence or their objectivity in the conduct of their mission, or breach the public's trust in the inspection system.

7.2. Transmission of documents by the inspected firms

The inspected firm must cooperate with the inspector in order to facilitate the inspection process.

In this respect, the inspector is allowed to:

- Obtain all documents whatever their form, and obtain all the explanations necessary for the inspection ;
- Verify copies of all documents or evidence pertinent for the inspection, whatever their format;
- Obtain copies of documents and evidences that are pertinent for the inspection, whatever their format (paper or electronic versions) so that the inspector may establish his/her inspection file.

The inspectors will evaluate the nature of the documents to be obtained from the firm.

Prior to the inspectors' intervention on-site, information is collected from the firm via an ad hoc questionnaire.

A list of the copies of the evidences and documents transmitted to the inspector is compiled.

There may be instances where the documents subject to inspection concern the firm's confidential strategies or business policy or even contain sensitive data and whose disclosure may breach protected interests. In this case, the inspected auditor can request that these documents be provided through specific confidentiality guarantees in order to preserve the inspected firm's interests, while enabling the inspector access to the information. The *Haut Conseil* examines such requests and sets the terms for this procedure.

The firm is required to provide a secure location for the inspector to store the working documents and IT equipment.

7.3. Protection of data communicated by the inspected firms

The information collected from firms is strictly reserved for use by:

- The support functions of the *Haut Conseil*³, of the *Compagnie nationale*⁴ and the *compagnies régionales*⁵,
- The inspectors employed directly by the *Haut Conseil*,
- The practitioner inspectors designated by the *Compagnie nationale* and *compagnies régionales*.

The inspector writes up the findings from the inspections performed. All the documents collected and working papers drawn up are collated in an inspection file, which could take the form of a partial or full electronic version.

In addition, the inspector undertakes to:

- Return all the documents transmitted by the inspected firm, following the inspection period;
- Leave the original documents with the inspected firm

Following the inspection, the practitioner inspector transmits the entire inspection file to the Secretary General of the *Haut Conseil* (for "PIE" audit firms) or to the *compagnie régionale* of the inspected firm (for "non-PIE" audit firms) within 8 days of signing the final report. He/she is not allowed to keep any documents once the inspection is completed.

Once the paper or electronic inspection file has been transmitted, the practitioner inspector testifies in writing that he/she has destroyed any other documents concerning the inspected firm.

The Secretary General of the *Haut Conseil* or the president of the *compagnie régionale* may keep a copy for a period of 10 years all the while ensuring that it remains confidential. At the end of this period, the file is destroyed.

³The support functions of the *Haut Conseil* are the Secretary General of the *Haut Conseil* and his/her deputy, the inspections department and the supervision department.

⁴The support function of the *Compagnie nationale* is the coordination unit.

⁵The support functions of the *compagnies régionales* are the permanent staff of each *compagnie régionale* designated to perform quality controls and the regional quality control officers of each *compagnie régionale*.

8. Inspectors

8.1. Competence

The inspectors employed by the *Haut Conseil* must meet the requirements for appropriate competence and conduct. The team of inspectors is composed of experienced inspectors and seniors.

The inspectors are either experts from the financial sector, chartered accountants or statutory auditors and have 10 to 30 years of experience, of which a significant share in an audit firm. In addition, a number of these inspectors are specialists in fields such as banking, insurance, mutual insurance and in the audit of listed companies.

The inspectors maintain a high level of expertise thanks to dedicated training in the statutory audit of accounts, in financial information, as well as in methods for undertaking quality control.

During certain inspections concerning "PIE" audit firms, the *Haut Conseil* may authorise the inspectors to consult practising professionals or specialists in specific economic sectors, when their technical expertise is required. These persons must testify to their independence from the inspected firm.

Delegated practitioner inspectors are statutory auditors holding "PIE" audit firm engagements and have over 15 years' experience in the statutory audit of accounts. Inspectors who are not statutory auditors, but who have over 6 years' experience or expertise in the statutory audit of accounts, may also be assist in the inspection.

The *Compagnie nationale* compiles a list of practitioner inspectors who are specialised in «PIE» audits of the same nature as those that can be delegated for inspection purposes. This list is reviewed yearly.

The candidates must meet the following criteria:

- Comply with the rules and code of ethics,
- Devote a minimum of 500 hours per year to statutory audits of accounts,
- Devote a minimum of 80 hours per year to inspections,
- Receive yearly training in the statutory audit of accounts and in financial information.

The list of practitioners, approved by the *Haut Conseil*, is made final once the practitioner inspectors have followed specific training in inspection methods. This annual training is organised and given by the Secretary General of the *Haut Conseil* in coordination with the *Compagnie nationale*.

For the selection of inspectors for "non-PIE" audit firms, the *compagnies régionales* appoint practising professionals based on their experience. They too follow specific training in inspection methods, organised and given by the *Compagnie nationale*.

To be selected, these professionals must:

- Be registered statutory auditors;
- Have signed at least one audit report or have done so in the last two years;
- Have sufficient experience in the statutory audit of accounts, which can be evaluated by the number of hours managed. This is estimated at a minimum of 300 hours per year or the same number over the last 5 years;
- Commit to performing at least 40 hours of inspections per year;
- Have been subject to a periodic control after which no significant recommendation has been issued;
- Comply with the obligations of declaring their activity, training etc.;
- Have paid all professional fees, subscriptions etc.;
- Commit to follow specific periodic inspection training given by the *Compagnie nationale* and the *compagnies régionales*.

The list of inspectors is reviewed yearly by each *compagnie régionale*.

The supervision department at the *Haut Conseil* has professional experience in statutory audit of accounts in audit firms.

8.2. Ethics

All inspectors directly employed by the *Haut Conseil* must sign supplementary commitments in addition to those in their employment contract, pursuant to decision 2008-04. These serve to prevent any situations that could impair the inspectors' independence both during the exercise of their audit mission and after. In this respect, they must not hold any audit engagements, personally or within an audit firm, and must not be involved in any statutory audit engagement.

Apart from training sessions, the inspectors may not conduct any other professional activity during the exercise of their mission, so as to ensure their independence.

In the event that their independence or objectivity are threatened, in relation to their mission, the inspectors must inform the inspection department and the Secretary General of the *Haut Conseil*.

The inspector must report on the following situations, which are not exhaustive:

- Engaging in personal financial transactions that could impair, or be perceived as impairing, their independence or objectivity in relation to the inspected firms.
- Participating in the inspection of a firm where they are linked either financially, personally or through family with the management or the partners of the firm,
- Participating in the inspection of a firm where they were linked either directly, whether salaried or through partnership, or indirectly, in the 3 years preceding the inspection,

- Participating in the inspection of the audit work performed on an audit of an entity, in which they, or any person acting on their behalf, may have a financial, personal or family-related interest with the directors of that entity.

All practitioner inspectors who perform delegated inspections of "PIE" or inspections of "non-PIE" firms sign a commitment to their independence from each inspected firm. The Secretary General of the *Haut Conseil* receives a copy of the document on independence signed by delegated practitioner inspectors for "PIE" firms whose inspections are delegated to the *Compagnie nationale*.

In addition, the inspector undertakes to alert the authorities of any changes that may threaten his/her independence during the performance of the inspection.

Practitioner inspectors are paid by the *Compagnie nationale* or the *compagnie régionale* on the basis of an invoice indicating the number of hours allocated to the inspections and to which a rate is applied according to the specific type of inspection; in addition, the inspector is reimbursed for travel expenses on the basis of capped real costs.

The inspector is not authorised to accept any form of payment from the inspected firm, whether directly or indirectly, or personally or from any other person acting on his/her behalf.

The inspector's personal attitude must not compromise the appearance of independence from the inspected firms.

8.3. Assignments

Inspectors are assigned missions based on their specific area of expertise and lack of conflict of interest with the inspected firm. When several inspectors are assigned a firm, one of the inspectors is designated to head the inspection.

Assignment of inspectors is decided by:

- The *Haut Conseil's* inspections department, for its directly employed inspectors;
- The *Compagnie nationale*, for delegated practitioner inspectors, after validation by the Secretary General of the *Haut Conseil* who can request a different assignment;
- The *compagnies régionales*, for the other practitioner inspectors.

For inspections of "non-PIE" firms, the assignment of practitioners is based on a «delocalisation» (change of venue) principle established by the *Haut Conseil*. In order to guarantee the independence of inspections, practitioner inspectors are assigned to the inspection of statutory auditors registered in another *compagnie régionale*. To implement this procedure, the *compagnies régionales* have formed 8 multi-region areas.

The delocalisation procedure is systematically applied in the following cases:

- For firms holding over 20 engagements,
- For firms where appointed members of the *compagnies régionales* practise,
- For firms that have been subject to a previous inspection whose results revealed serious deficiencies and are being followed-up on an accelerated track,
- For firms holding engagements for entities presenting “entity risk” as identified by the *Haut Conseil* or for firms holding engagements that are of significant importance for the local economy.

For firms that do not meet the above criteria, then the delocalisation is made between departments (French administrative areas).

Each president of the *compagnie régionale* may, along with the Secretary General of the *Haut Conseil*, request delocalisation for certain firms, based on selective criteria made at their discretion. The inspected firm may also request a delocalisation.

The inspected firm receives the names of its practitioner inspector(s) once the assignments are made.

The firm has the possibility to turn down the inspector(s) it has been assigned. This refusal, generally linked to independence or incompatibility issues, is expressed by letter and sent within 10 days of receipt to the *Compagnie nationale* in the case of delegated “PIE” firm inspections, or to the president of the *compagnie régionale* for inspections of “non-PIE” firms. These professional bodies inform the inspected firm of their response within 15 days of receipt of their letter.

8.4. Confidentiality

The mission of the inspector assigned to a firm is strictly personal. Therefore, he/she is not authorised to:

- Obtain help from any person, with the exception of an expert duly authorised by the *Haut Conseil* or from an inspector designated as assistant inspector, where necessary. In addition, the inspector may not be represented by a third party, whether a registered statutory auditor or not;
- Delegate his/her mission.

9. Cooperation

9.1. AMF

On 10 January 2010, the *Haut Conseil* signed an agreement with the *Autorité des marchés financiers*.

This agreement, along with the aforementioned 2009-02 decision, sets out the terms of cooperation between these two authorities, namely to promote a coordinated approach to inspections and facilitate information-sharing when discharging their respective duties.

Through their respective secretary generals, the *Haut Conseil* and the AMF cooperate closely, regarding firms holding engagements of entities under AMF jurisdiction, in order to achieve the shared goal that inspections are geared towards ensuring the quality and reliability of issuers' financial reporting. As a result, the *Haut Conseil* informs the AMF about the firms subject to inspections, and the AMF transmits its observations.

During the inspection planning phase and at the time of the inspection itself, the *Haut Conseil* may contact the AMF in order to obtain information concerning:

- Issues or events that may impact the financial information of companies;
- Any exchanges between the statutory auditor and the AMF in relation to these issues or events, and positions adopted by the AMF, where necessary.

In accordance with the 10 January 2010 agreement, the Secretary General of the *Haut Conseil* sends the AMF its recommendations concerning the statutory auditors of entities under AMF jurisdiction. If, following an inspection, the AMF plans to take measures against a statutory auditor of entities under its jurisdiction, it informs the *Haut Conseil*. The latter's Secretary General also informs the AMF should it be necessary to refer to the authorities for sanctions against a statutory auditor appointed by a firm under AMF jurisdiction.

9.2. ACP

The Executive Order n° 2010-76 of 21 January 2010 concerning the creation of the *Autorité de contrôle prudentiel* (ACP) includes a general stipulation concerning the exchange of information between oversight bodies. The *Haut Conseil* and the ACP signed an agreement on 6 April 2011 with a view to organising such exchanges.

During the planning phase of the annual periodic inspections, the Secretary General of the *Haut Conseil* can call on the ACP for the selection of firms and engagements to be inspected. To this end, the Secretary General transmits the annual periodic inspection plan to the ACP in order to obtain any relevant information that would enable it to finalise this plan.

In accordance with the agreement of 6 April 2011, the Secretary General of the *Haut Conseil* may, when implementing inspections of statutory auditors and ensuring their supervision, request occasionally assistance from the Secretary General of the ACP on some sector-specific issues. In particular, this assistance could involve an oral or written technical consultation on issues related to banking and insurance, as well as compliance with the relevant legislative and regulatory texts.

During the planning phase of the annual periodic inspections, the Secretary General of the *Haut Conseil* can call on the ACP concerning the selection of firms and engagements to be inspected.

In accordance with the 6 April 2011 agreement, the Secretary General of the *Haut Conseil* informs the ACP when the periodic inspection of a statutory auditor of an entity under ACP jurisdiction reveals serious deficiencies in the audit engagement, leading to doubts over the quality of the audited entity's accounting and financial information. The Secretary General of the *Haut Conseil* informs the ACP by transmitting a copy of the recommendations sent to the statutory auditor as well as any other information relevant to its mission.

In addition, the Secretary General of the *Haut Conseil* informs the ACP when, after completion of a periodic inspection, a referral is made to the competent disciplinary authority to initiate sanctions against a statutory auditor auditing the accounts for an entity under ACP jurisdiction.

9.3. Europe and abroad

The *Haut Conseil* organises its periodic inspections exercise in the framework of cooperation with other foreign public oversight bodies.

Article 36 of the European directive 2006/CE/43 allows the competent authorities in Member States responsible for quality assurance and inspections to exchange information. This information remains covered by professional secrecy.

Article 47 of the European directive states that Member States may allow the transfer to the competent authorities of a third country of audit working papers or other documents held by statutory auditors, subject to certain conditions. This transfer of data implies that the competent authorities of the third country have been declared adequate by the Commission and that there are bilateral working arrangements on the basis of reciprocity.



H3C | Haut Conseil
du Commissariat aux Comptes

10 rue Auber - 75009 Paris
Tél. : 01 44 51 09 36
www.h3c.org