

Strategic plan of the Haut Conseil du commissariat aux comptes

This document is a free translation into English of the original French strategic plan approved by the Board of the Haut Conseil on 5 July, 2012. In the event of any perceived inconsistencies between the two versions, the French one will prevail.

Introduction

Statutory auditors have a public-interest mandate to ensure the integrity of accounting and financial information. Given the risks inherent in this activity, the *Haut Conseil* defines its missions and prerogatives with an objective to contributing to the quality and consistency of the audit profession in France, as well as placing it within the framework of coordinated regulation across Europe and abroad. In order to carry out its activity while fulfilling this objective, the *Haut Conseil* has drafted a strategic plan for the next three years.

The *Haut Conseil*'s strategic plan for 2012, 2013 and 2014 focuses on 5 main objectives:

- Contribute to the audit standard-setting process and ensure that the code of ethics is applied;
- Enhance quality control;
- Strengthen cooperation and information exchanges in Europe and abroad;
- Pre-empt changes in the profession and in its regulation;
- Communicate more broadly.

1. Contribute to the audit standard-setting process and ensure that the code of ethics is applied

⇒ **This implies participating in the standard-setting process and continuing to promote professional best practices**

The *Haut Conseil* issues an opinion before endorsement of the professional standards prepared by the *Compagnie nationale des commissaires aux comptes*. With approval from the *Compagnie*, the *Haut Conseil* participates at the start of the standard-setting process in order to facilitate endorsement.

While respecting the prerogatives of each stakeholder, the *Haut Conseil* also intends to propose to the *Compagnie* that it sets new standards or modify them when the *Haut Conseil* identifies weaknesses in the existing framework, in light notably of its inspection findings. The *Haut Conseil* also wishes to ensure that the professional doctrine is consistent with the professional standards framework. The *Haut Conseil* will, to this end, approach the *Compagnie* in order to define how it can participate in the assessment of the existing professional standards framework.

Given its role in the process of defining and adopting professional standards in France, the *Haut Conseil* will remain attentive to changes in international audit standards. In this respect, the *Haut Conseil* intends to strengthen its role in the consultation and dialogue processes set up between global standards-setting authorities and audit regulators.

Moreover, the *Haut Conseil* will continue to identify and promote professional best practices that complement existing rules applicable to professionals.

⇒ **By encouraging referrals and placing more emphasis on self referrals**

In addition to the opinions it issues on the application of the code of ethics, the *Haut Conseil* also review cases submitted by statutory auditors, companies and public authorities. The *Haut Conseil* can also self-refer on issues of principle raised by the Secretary General following inspections.

Referrals and self-referrals enable the *Haut Conseil* to highlight core principles, this being an instrumental part of its action. In light of this, the *Haut Conseil* will continue to issue opinions and encourage reviews in order to provide professionals and stakeholders with the necessary ethical guidelines to follow when the need arises.

2. Enhance quality control

Statutory auditors are subject to periodic inspections of their professional practice. Organised and led under the supervision of the *Haut Conseil*, these inspections enable this institution to ensure that the statutory auditors are fulfilling their mission of auditing financial statements.

In this respect, the *Haut Conseil* set up a multi-annual programme of inspections which was rolled out in 2008 for the “non-PIE audit firms” and in 2009 for the “PIE audit firms”. The first cycle of controls was completed at the end of 2011 for the “PIE audit firms” and will terminate in 2013 for the “non-PIE audit firms”.

The *Haut Conseil* intends to enhance its quality control process based on the conclusions drawn from this first cycle of inspections.

⇒ **It intends to do this through increased emphasis on risk-based inspections during implementation of the second cycle of controls of the PIE audit firms, as well as working towards convergence in practices with its counterparts**

During the second three-year inspection cycle of the PIE audit firms, the *Haut Conseil* will factor in its findings from the first cycle of controls (mainly on how audit firms function) and will implement a risk-based approach to inspections comparable to that used by some of its European and foreign counterparts.

This risk-based approach will take into account two factors; first, a “firm risk” and secondly, an “entity risk”:

- “Firm risk” will enable the *Haut Conseil* to identify the strengths and weaknesses of audit firms (recorded during the first inspection cycle) based on how they carry out their audit mission, the type of recommendations addressed to them and finally, any constraints experienced by the inspectors during their mission.
- The *Haut Conseil* will also develop a methodology to identify “entity risk” which refers to audited entities. Initially, two groups will be considered as presenting “entity risk” mainly due to their visibility and size: firstly, entities issuing transferable securities admitted to trading on a regulated market and secondly, credit institutions.

This approach will be supplemented by a close monitoring of a number of current event themes defined by the *Haut Conseil* and linked to economic and financial trends.

In addition, the *Haut Conseil* will continue to monitor the inspection practices of its European and foreign counterparts and ensure that its inspections incorporate all key areas identified by other regulators.

⇒ **Following up on quality control**

The quality control procedure involves issuing the audit firms with individual recommendations indicating the points that require remedial action. In this respect, efforts will be increased to reduce the time lag between the issuance of the final inspection report and the publication of the recommendations. The *Haut Conseil* also intends to follow up on implementation of action plans required from certain audit firms after inspections have been carried out, and will schedule specific follow-ups where necessary.

In case of severe deficiencies, inspections may lead to a notification of the Public Prosecutor by the Secretary General of the *Haut Conseil*. Given its mandate as a disciplinary appeals body, the *Haut Conseil* will call for a strengthening and enhancing coherence in the sanction procedures against statutory auditors.

⇒ **Further thought on the transparency of quality control results**

In its position paper on the proposals for the reform of statutory audits in Europe, the *Haut Conseil* indicated that the quality control results of audit firms should be made more transparent. To materialise this, the *Haut Conseil* was in favour of making public a set of concise conclusions based on the quality control undertaken at each audit firm subject to an inspection.

The *Haut Conseil* is closely monitoring this information transparency issue and will examine how its counterparts address it.

⇒ **Strengthening collaboration with the *Autorité des Marchés Financiers*, the *Autorité de Contrôle Prudentiel*, European counterparts and third countries**

The *Haut Conseil* attaches great importance to its collaboration with the *Autorité des Marchés Financiers* (French securities regulator) and the *Autorité de Contrôle Prudentiel* (French prudential regulator). This follows the agreements signed with these two bodies in early 2010 and in 2011 to exchange information and assist in periodic inspections made by the *Haut Conseil*.

This collaboration consists of the regular transmission of information, both allowing the *Haut Conseil* to refine its risk-based approach to inspections and the *AMF* and *ACP* to exercise their prerogatives when statutory auditors are appointed to entities within their sector. The *Haut Conseil* will ensure that this cooperation continues.

In addition, the *Haut Conseil* will exchange information on the outcome of inspections carried out at audit firms that belong to large international networks. This information sharing system has been set up at the European level by the European Audit Inspection Group (EAIG). The *Haut Conseil* will also participate in European colleges of regulators.

3. Strengthen cooperation and information exchanges in Europe and abroad

⇒ **The *Haut Conseil* will continue to contribute to the activities of its European and foreign counterparts**

The *Haut Conseil* has strengthened its presence and involvement among European and international audit supervision organisations. At the European level, the Secretary General of the *Haut Conseil* is a member of the European Group of Audit Oversight's Bodies (EGAOB), while the *Haut Conseil* is part of a group of 5 oversight bodies that coordinate and run the activities of the EAIG. Abroad, the *Haut Conseil* participates in the 6 working groups set up by the International Forum of Independent Audit Regulators (IFIAR).

The *Haut Conseil* intends to maintain an active presence within these various organisations, as well as increase its activity and responsibilities within them.

⇒ **Organising protocols for cooperation with third country authorities**

One of the *Haut Conseil*'s missions is to establish relations with the audit regulators of other states. Following the 2010 European Commission decision on the adequacy of the competent authorities of certain third countries, the *Haut Conseil* initiated negotiations with the PCAOB in the USA as well as with the Swiss and Japanese oversight bodies.

The *Haut Conseil* will continue to negotiate such direct cooperation agreements with its third country counterparts, with a view to establishing relationships of trust with these authorities.

4. Pre-empt changes in the profession and in its regulation

⇒ **Highlighting the *Haut Conseil*'s vision of changes in the profession**

Given its status as a public authority responsible for the supervision of statutory auditors, the *Haut Conseil* intends to promote its recommendations on changes in the profession and defend the modus operandi of France's statutory auditors. In this respect, following meetings with the main French stakeholders the *Haut Conseil* published a position paper in July 2012 on its proposals for the reform of statutory audits of accounts in Europe.

The *Haut Conseil* will continue to contribute to audit reform with a view to providing a well-informed and impartial vision of the profession and will maintain its involvement in future reforms.

⇒ **Reflecting on the missions and prerogatives of the *Haut Conseil***

In light of its past experience and given recent changes in the economic and legal conditions in Europe and abroad, the *Haut Conseil* has identified a certain number of impediments to its action and wishes to initiate reflections on legal changes to remedy this.

For instance, the anonymous nature of cases dealt with by the Board (due to the judicial and non judicial capacities endowed upon the *Haut Conseil*), has become increasingly

burdensome, making it necessary to put an end to this anonymization system and implement a sanction committee.

Discussion could also be initiated on allowing the *Haut Conseil* to authorise statutory auditors (in certain situations only and for a short period) to resort to safeguards so that they can comply with regulations, when it is in the interest of all parties to do so. Secondly, thought should be given to implementing more flexible European and international cooperation agreements, based on existing mechanisms in certain countries.

⇒ **Ensuring that the H3C has adequate resources to perform its activities**

The *Haut Conseil* will closely scrutinise its size in light of changes in European legislation and based on comparisons with international counterparts.

Concerning quality control, the *Haut Conseil* will monitor the pace of inspections, taking into account the size of the audit firms, and will closely monitor the number of inspectors and its adequacy with regards to the scale of inspections.

In addition, the *Haut Conseil* will ensure that it is adequately funded in the long term especially given the rise in the number of missions imposed on audit regulators.

5. Communicate more broadly

Currently, statutory auditors are the primary object of the *Haut Conseil* when it communicates. The *Haut Conseil* will endeavour to widen its scope to include other stakeholders. In this respect, the *Haut Conseil* will communicate more widely with companies and financial statements users in order to explain its role and missions and their impact on audit quality and on the integrity of financial information.