EUROPEAN COMMISSION
« GREEN PAPER »

1 – QUESTION

*Do you have general remarks on the approach and purposes of this Green Paper?*

**ANSWER**

The « Green Paper » covers several topics, some of which are recurrent and regularly treated by the legislators and regulators.

These last months and still today, the financial crisis lead to strong structural changes with all the necessary consequences in financial security matters.

The legal auditor, as actor in this environment, has to find a responsible and sustainable place, in a context where no ambiguity exists in his intervention field, in the nature of his works, in the consequences and in the understanding of his opinion and his liability regarding the quality of the information issued and the institutional control of his works.

Therefore, it is normal that his action is the object of a deep and clear analysis, and the will to integrate to thought all the stakeholders implicated by these works and the opinions of the auditors, being in their nature to precisely perceive the vision, the assessment, the comprehension and the feeling linked to the function.

2 – QUESTION

*Do you believe that there is a need to better set out the societal role of the audit with regard to the veracity of financial statements?*

**ANSWER**

It is necessary to specify the societal role of the audit to avoid any ambiguity from those who rely on the conclusions of an audit for making decisions.

The opinion concerns a financial and patrimonial situation at a given date by integrating the coherence of some hypotheses making sure that the absence of natural elements challenges the going concern.

But it is possible to think about an implication in the analysis of the process of preparation of the forecast and to give an opinion on the hypothesis accepted by the issue of a special report.

The increase of the economic undulation, the globalisation of the exchanges and the permanent difficulty of the forecast, involve clarification of the modalities that have lead to the opinion and made clear the fact of the environment can modify some parameters in an unpredictable way.

The veracity of the financial statements has to be limited to the impossibility of predicting the future, including all that concerns the auditor.
3 – QUESTION

Do you believe that the general level of "audit quality" could be further enhanced?

ANSWER

In order to answer this question, one must first define the quality of audit generally accepted by all stakeholders on a global scale.

It is:

➢ a process of initial and continuing education,
➢ understood and applied standards,
➢ the settlement of a permanent quality control in the audit firms,
➢ and the supervisory control by an independent and skilled public authority.

Today, these systems all exist. The real question is displaying everything in a harmonized and appropriate manner.

In the European Union, a recent country member is given a few years to integrate community asset and create its environment of regulation and financial security, factually arrange an experience and a level of display lower than a country in which the legal audit is culturally and historically inscribed in the law for more than one century.

4 – QUESTION

Do you believe that audits should provide comfort on the financial health of companies? Are audits fit for such a purpose?

ANSWER

The audit standards plan or have to plan that at the date of issuing the opinion, the works are conducted to make sure of the continuity of the operations and the exploitation in terms of cash flow capacity of the upcoming 12 months.

As this appreciation is in the audit process, the audit has to make sure, without any ambiguity, that the financial and economic information to the stakeholders provides a reliable image of reality and while understanding the dimension of the forecasts and the perspectives mentioned there as well.

We should recall that the French model plans a particular liability of the legal auditor in relation to the prevention of difficulties for the companies. We can name two main themes that enter in the field of intervention of the auditors:

➢ the validation of projected documents that have to be formalised and given in particular to the board of directors and to the social partners beyond certain thresholds which are naturally the object of some control works of the auditor.
➢ the warning procedure imposes to the auditor to interrogate the board bodies in the possibility of being uncertain of business continuity and going to inform the proper
authors (Tribunal de Commerce and Autorité des Marchés Financiers) if the difficulties confirmed and proven.

This step, in certain cases, can lead on the legal auditor’s initiative, until the summoning of a shareholder meeting.

This approach would naturally strengthen the European level of security and confidence in financial matters without forgetting that the responsibility of the investor or the financier should not be evaded and reported on the auditors.

5 – QUESTION

To bridge the expectation gap and in order to clarify the role of audits, should the audit methodology employed be better explained to users?

ANSWER

Auditing is a technical subject and if it appears to be a good idea to clarify its role and to better explain it, one should keep in mind that the technical practice of this profession implies a curriculum of initial training and continuous study. The natural definition of conceptual framework would be to improve the level of involvement that the users should have and to clarify the essential pre-requisites necessary to value the opinion of the auditor.

The French regulation anticipates particular arrangements in regards to justification of appraisals. A paragraph is an integral part of the auditor’s report and is placed after the paragraph that expresses the opinion of the auditor, allowing to clarify and to indicate the particular considerations developed by the auditor in accordance with the specific topics or problems on which the paragraph shows to the reader the detailed nature of the auditor’s work.

This justification of appraisals is to clarify the typology of the works driven by the auditor with respect to the reader.

The release of a more developed and more explicit report would be kept for the Board of Directors and the Audit Committee.

6 – QUESTION

Should "professional scepticism" be reinforced? How could this be achieved?

ANSWER

On the plane of international standards, professional scepticism is a key component. The true question is once again not a reinforcement problem but a deployment problem.

Like professional judgement, professional scepticism is an intrinsic feeling from a professional established on the basis of a standardized and harmonized approach. It does not act as a binary approach.
7 – QUESTION

*Should the negative perception attached to qualifications in audit reports be reconsidered? If so, how?*

**ANSWER**

The reserve does not question the authenticity of financial statements but identifies and concentrates on a significant topic that a reader must keep in mind.

Actually, the reserve should be:

- a point of disagreement but not enough to challenge a certification,
- a point of uncertainty of which the issue will be linked to a certain number of future parameters.

By clearly indicating this important nuance, a differentiated drafting could naturally change the perception. Disagreement would lead to an effectively negative version; uncertainty would lead to a cautious and transparent version. In most cases, the perspective of an issue is usually positive.

8 – QUESTION

*What additional information should be provided to external stakeholders and how?*

**ANSWER**

At this time, the volume of circulated information to the stakeholders with regard to the applicable regulation and, more generally, to the good practices is significant:

- quarterly information,
- semi-annual information,
- annual financial statements.

In addition, in the perspective of the concerns for social responsibility, several companies communicate in a complimentary way on these subjects.

The matter is not adding to the abundance of information, but favouring beforehand their hierarchy they have an unquestionable efficiency with regard to the expectations of the stakeholders.

9 – QUESTION

*Is there adequate and regular dialogue between the external auditors, internal auditors and the Audit Committee? If not, how can this communication be improved?*

**ANSWER**

This dialogue is in a manner generally appropriated and regulated.
Nevertheless, the acceleration of regulation relating to financial security since the years after 2000, implementing normative IFRS references for certain groups and the reinforcement of necessary structures to the governing of companies, drive a general manner to a technical elevation without surpassing parameters and information necessary to financial communication.

As a result, the financial directions, in the largest sense, became the essential actors in the dialogue between external auditors and the internal structures of the companies.

This situation was organized for the detriment of the dialogue with the managers (presidency and head of management). It could be coherent to re-establish this link posed precisely in the regulation between legal auditor and manager. This situation can lead to internal conflicts. The Audit Committee is supposed to respond to this problem.

Any change to the practice could lead to re-establish this lost equilibrium, and would naturally reinforce the quality of legal auditing in the societal dimension.

10 – QUESTION

Do you think auditors should play a role in ensuring the reliability of the information companies are reporting in the field of CSR?

ANSWER

The work of auditors can not be defined on the basis of a normative reference under the condition of placing so many references in relation to social and environmental responsibility. The legal auditor has his entire place to appreciate the reliability and the relevance of kept hypotheses leading to produced information in the context of a specific report.

11 – QUESTION

Should there be more regular communication by the auditor to stakeholders? Also, should the time gap between the year end and the date of the audit opinion be reduced?

ANSWER

The stakeholders and, in particular, the group of regulation jurisdictions for listed structures, the financial and banking institutions and the insurance companies should be precisely defined.

Their considerations on communication terms and on the timely production of an opinion should allow them to express their wishes and the margins of progress that could allow them to reinforce the efficiency of their tasks.
12 – QUESTION

What other measures could be envisaged to enhance the value of audits?

ANSWER

Necessary systems at the quality of audits do not exist.

The matter is not creating something new, but residing in the application of those that exist in a harmonized, clarified and supervised manner.

13 – QUESTION

What are your views on the introduction of ISAs in the EU?

ANSWER

Today, the ISA standards are the only harmonized and clarified world references that are internationally recognized.

The introduction of these standards in the European Union is subjected to a highly differentiated approach:

- in the application field while notably distinguishing between the PIE organizations and the non PIE organizations,
- in its application, since in some respects, the choice relies on the state members,
- in the transposition that can lead to different interpretations or estimations.

It is important to recall that in the context of the reform of the 8th directive, it was predicted the adoption of an international-level normative system by the European Union.

In this context, predispositions exist thereby confirming the introduction of the ISA which writes in perfectly in this perspective.

14 – QUESTION

Should ISAs be made legally binding throughout the EU? If so, should a similar endorsement approach be chosen to the one existing for the endorsement of International Financial reporting Standards (IFRS)? Alternatively, and given the current widespread use of ISAs in the EU, should the use of ISAs be further encouraged through non-binding legal instruments (Recommendation, Code of Conduct)?

ANSWER

One approach, by accepting a standard setting process analogous to IFRS, could be relevant without any doubt on the condition that it is done “en bloc”. The 8th Directive had predicted for the state members a possibility of “carve out”.

15 – QUESTION

*Should ISAs be further adapted to meet the needs of SMEs and SMPs?*

**ANSWER**

The works of the IFAC clearly demonstrate the appropriate character of the ISA to the SMEs and SMPs.

16 – QUESTION

*Is there a conflict in the auditor being appointed and remunerated by the audited entity? What alternative arrangements would you recommend in this context?*

**ANSWER**

This question is complex. By definition an appointed and remunerated system creates a risk of conflict. This system is however certainly the less inappropriate.

Indeed, this aspect of risk shall be considered in a larger dimension regarding the ethics and deontology applicable to the auditors.

Today, the dispositions that the professionals have to follow, impose upon them to pay particular attention to this subject and have to be the object of regular controls from independent authorities of supervisory control to avoid and limit the more likely risks linked to the conflicts of interest.

17 – QUESTION

*Would the appointment by a third party be justified in certain cases?*

**ANSWER**

Regarding the arguments developed in the previous question, the answer is negative.

However, the joint-audit is an answer adapted to this legitimate concern. Today, in the structures PIE, the appointment of the legal auditors is made by the approval of the general assembly after proposal of the work board after opinion of the audit committee.

The practice shows that numerous audit committees have among their members some professionals that worked with the audit firms known as « the Big Four ». This situation had a concluded natural effect conflicting with the initial mind by favouring and accelerating the concentration in favour of these structures.

In order to avoid any conflict of interest, we could think about maintaining this type of appointment for the legal auditor of the joint-audit team of auditors and imagine to propose to the general assembly a second legal auditor directly proposed by any appropriate organ that could represent for example the interests of the shareholders notably the minority ones and/or the representative of the personnel.
This configuration is the French point of view, but different in the process of appointment, could favour the balancing in the dialogue as we developed it in the question n° 9 and to limit in a very sensitive way any problematic of conflict.

Finally, a joint-audit only makes sense if it does not consist in the appointment of two “big four”.

18– QUESTION

*Should the continuous engagement of audit firms be limited in time? If so, what should be the maximum length of an audit firm engagement?*

**ANSWER**

Before answering to this question, perhaps we shall have some studies that would permit to show in the countries of the European Union what the existent in terms of turnover is.

If the question is: Does the service of the auditors carried out during numerous years have a nature to cast doubt on its independence? Obviously the answer is: no.

If the question is: Does the recourse to audit firms have to be limited from the moment that the respect of the deontology is conditioned by the safeguards, a limitation has to be clearly showed.

19– QUESTION

*Should the provision of non-audit services by audit firms be prohibited? Should any such prohibition be applied to all firms and their clients or should this be the case for certain types of institutions, such as systemic financial institutions?*

**ANSWER**

This prohibition shall clearly distinguish PIEs and non PIEs.

As the financial organisations are PIEs, and fundamentally some entities of systemic importance, they have to clearly allow any possibility to combine some services other than audit.

The code of ethics of the IFAC, which will enter into force in 2011 and applicable from 2012, moreover plans a coherent measured approach which clearly specifies:

- the strict prohibitions for the PIE structures,
- the possible fields for the non PIE structures.

The one year deadline enables to plan the deployment of the code and the training of the professionals.
20 – QUESTION

Should the maximum level of fees an audit firm can receive from a single client be regulated?

ANSWER

This question is essential regarding the independence of the offices of audit. An appreciation of this proportion would lead to consider a maximum limit of:

- 10% of the turnover of a firm for a single client,
- 15% if it is a group.

21 – QUESTION

Should new rules be introduced regarding the transparency of the financial statements of audit firms?

ANSWER

The regulation already plans the obligation of issuing an annual report of transparency for the PIE audit firms.

An improvement of the transparency shall go through an improvement of the definition of the perimeter of the offices, the conclusions of the quality control sometimes lead to show the difficulty to distinguish one or several juridical structures, some possible individuals, and some relationships of a type capitalistic, associative or networks, that sometimes leads to difficulties of visibility for the field of action of the sector.

The broadcast of the financial statements consolidated in IFRS standards would effectively complete the existing system.

22 – QUESTION

What further measures could be envisaged in the governance of audit firms to enhance the independence of auditors?

ANSWER

The idea explained by the European Commission to impose on the PIE office an independent administrator could certainly improve the governance and therefore the transparency of the audit companies.
23 – QUESTION

*Should alternative structures be explored to allow audit firms to raise capital from external sources?*

**ANSWER**

From our opinion, it does not seem necessary for audit firms to raise capital from external sources. Factually, the macro economy leads to notice that the external financing often helps to finance the external increase applied to the audit companies, the external increase favours the concentration.

24 – QUESTION

*Do you support the suggestions regarding Group Auditors? Do you have any further ideas on the matter?*

**ANSWER**

The particular specificities of group auditors are essential in a certification process and the quality of the process allows expression of opinion.

Today, more on the level of IFAC, particularly the ISA 300 and 600, than on the level of aptitude of the 8th Directive in relation to quality supervisory control, regulation precisely predicts the conditions that should display the works of the legal auditors in charge of the groups. This normative and regulatory environment allows for the assurance of quality in the auditing process in the context of consolidation while allowing the display of local auditors who largely contribute to the estimation of risks in relation to their local or regional knowledge. This environment should not lead to the display of a single network on the group of parameters, but the multiplicity of the legal auditors, however, should lead to more security for the stakeholders.

The Forum of Firms, in the area of IFAC activities, responds perfectly to this concern while clearly defining the criteria which allows for the establishment of a level of higher quality that should be respected by “transnational” auditors.

Lastly, an equal joint-audit naturally displays a manner fitted to an auditing process involving funds and makes it a shared and accepted responsibility.

25 – QUESTION

*Which measures should be envisaged to improve further the integration and cooperation on audit firm supervision at EU level?*

**ANSWER**

It is necessary to affirm the standards of functioning harmonised in terms of education, of functioning, of quality, of supervisory control and of sanction.
26 – QUESTION

How could increased consultation and communication between the auditor of large listed companies and the regulator be achieved?

ANSWER

The authorities of regulation could receive the file of the calls for tender regarding the appointment of the auditors, and if it is put in place, a more detailed report indicated in question number 5.

27 – QUESTION

Could the current configuration of the audit market present a systemic risk?

ANSWER

The predominance of 4 big networks and numerous operations of external increases are likely to present a systemic risk.

This situation would be true and recurrent if we shall consider that one of the « Big Four » could be replaced by another unique structure of legal audit.

Favouring the appearance of numerous structures of legal audit would confirm this systemic risk by considering an expansion of the offer.

This question is particularly pertinent in the framework of the audits of Groups where it is imperative to avoid a situation where the legal audit of each entity composing the structure consolidated is allocated to a unique auditor or a unique network. This reflection is linked to the question number 24.

It is necessary that the authorities allow the affirmation of a dynamic and open market making sure to any office that wishes and implicated in a process of supervisory control, to become stakeholder of the offer of audit.

28 – QUESTION

Do you believe that the mandatory formation of an audit firm consortium with the inclusion of at least one smaller, non systemic audit firm could act as a catalyst for energizing the audit market and allowing small and medium-sized firms to participate more substantially in the segment of larger audits?

ANSWER

The answer to this question is affirmative. It relies on the model developed by the IFAC in the framework of the Forum of Firms which answers exactly to this purpose to organize the sustainable co-existence of offices that respect a strict and harmonised normative process.

Moreover, beyond the market access, the joint audit, which is force in France for the companies with consolidated accounts, brings a complementary and appropriate answer to
the reliability of the certification. Therefore, the complex technical questions are analysed by two independent actors, both reliable. Besides, the independence of a joint-audit of two audit firms regarding the audited company is always stronger than in a situation where there is only one audit firm.

For whatever purpose it may serve, we noticed the existence of a Wikipedia page on the « joint-audit » which provides some interesting information on this topic. You can access to this page via the link http://en.wikipedia.org/wiki/Joint_audit

We specify that we are completely independent regarding the contributors of this page.

29 – QUESTION

*From the viewpoint of enhancing the structure of audit markets, do you agree to mandatory rotation and tendering after a fixed period? What should be the length of such a period?*

**ANSWER**

The principle of a compulsory rotation satisfies neither the companies nor the auditors.

The affirmation of a call for tender process, as we know it in the public sector, would without any doubt show the capacity of numerous audit firms to seriously complete a certain number of missions.

However, the regulator shall make sure that such a process would not have as only consequence a commercial renegotiation of the fees of the existing auditor.

In this context, the joint-audit would favour the dynamic of the market by assuring emulation as well in terms of activity as in terms of skills for the audit firms and their teams. As such, a joint offer could be favoured.

30 – QUESTION

*How should the "Big Four bias" be addressed?*

**ANSWER**

The concentration of the audit market leads as the « Green Paper » underlines to some systemic risks.

We defend an approach which is not to part of any action against the "Big Four ", but an approach in an action that opens the access to other actors’ markets.

The first point of reflection is about an effect considerably harmful to the concentration.

It is the training and the development of skills of the teams. If only a few sectors have access to the closed market, the level of skills of the profession would be affected.

The offices that could not access to some types of entities and particularly in the PIEs would be factually in a breach of the chain of skills and training.
The model of joint-audit that would consist in confirming the capability of a "Big Four" to take in charge an audit at the global level and the presence of a local or regional office would usefully complete a sharing of competences, creation of values and stability in favour of the stakeholders of the audited entity.

Moreover, a progress in the direction would enable an expansion of the offer and of the access to the market for the « non big » entities, notably regarding some sector regulation authorities that have to pronounce on the approached auditor.

31 – QUESTION

Do you agree that contingency plans, including living wills, could be key in addressing systemic risks and the risks of firm failure?

ANSWER

In the hypothesis where the proposals made in the framework of this document would be followed by some effects, some measures of protection would be less necessary.

32 – QUESTION

Is the broader rationale for consolidation of large audit firms over the past two decades (i.e. global offer, synergies) still valid? In which circumstances could a reversal be envisaged?

ANSWER

Sometimes asking the question is the equivalent to its answer.

If the stakeholders wonder about it, they will find the answer.

33 – QUESTION

What in your view is the best manner to enhance cross border mobility of audit professionals?

ANSWER

The adoption of the ISAs, the code of ethics of the IFAC and the 8th Directive shall answer to this question.

34 – QUESTION

Do you agree with “maximum harmonisation” combined with a single European passport for auditors and audit firms? Do you believe this should also apply for smaller firms?

ANSWER

This important question has to go through the precise definition of the modalities of conception, of implementation and of deployment of the European passport. From a
principle point of view, it is an approach to favour the harmonized recognition as regarding the service as the supervisory control.

Any approach of this type shall be accessible to everybody without distinction of size or perimeter.

35 – QUESTION

Would you favour a lower level of service than an audit, a so called "limited audit" or "statutory review" for the financial statements of SMEs instead of a statutory audit? Should such a service be conditional depending on whether a suitably qualified (internal or external) accountant prepared the accounts?

ANSWER

The ISA predicts that an auditor relies on the works done by an internal or external qualified accountant.

The real issue to which we have to bring a solution is to make sure that the opinion expressed by the auditor does not present any ambiguity in the reader’s mind.

A technical declension of terms uniquely understandable by those who wrote them creates an important risk on the understanding of the expressed opinion.

Finally, the financial stability of the states goes through notably by the tax stability which is by definition optimized when the legal auditors carry out their mission without declension of levels in function of the audited entities.

36 – QUESTION

Should there be a "safe harbour" regarding any potential future prohibition of non audit services when servicing SME clients?

ANSWER

The Code of Ethics of the IFAC indicates very precisely the conditions in which it is possible to provide other services than audit.

The selected distinction is not on the segmentation SME or Big Companies, but on the quality of PIEs or non PIEs.

Therefore, the settlement of the ISA in the European regulation would lead to bring a precise and pertinent answer to this important question without creating any « safe harbour ».
37 – QUESTION

Should a "limited audit" or "statutory review" be accompanied by less burdensome internal quality control rules and oversight by supervisors? Could you suggest examples of how this could be done in practice?

ANSWER

An auditor should adapt in a normative environment as well as a harmonized supervisory control of the same level environment. Any decision that is likely to implicitly create quality levels within the profession would be counter-productive in regards to the desired transparency and to the understanding by third-parties from the role of auditors.

The supervisory control system of known quality or such as one could imagine it in the context of a European display that does not require new regulation, once again affirms the respect of the professional environment of auditors that is adapted to the questions of size, typology, sector specificity etc. but should press on a conceptual approach in relation to ethics.

It should be emphasized that any change in relation to European regulation issued from the 8th directive, set up since 2008, should also leave time for a relevant appraisal and not enrol in an operation where one reforms without having measured the interest of the preceding operation.

38 – QUESTION

What measures could in your view enhance the quality of the oversight of global audit players through international co-operation?

ANSWER

The assurance that at the national level everybody is convinced that behind the word « audit » there is, regarding the content and the form, the same thing.

It would be the essential basis of an effective international co-operation.