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Study of fees paid by French companies listed in the CAC 40 index to statutory auditors and their networks in respect of financial year 2007

The AMF has made a study of the fees paid by listed French companies in the CAC 40 index to statutory auditors in respect of FY2007. Issuers with securities traded on a regulated market have been required to disclose this information since FY2003, in accordance with the requirement introduced by COB Regulation 2002-06¹.

The study is based on information available in the registration documents prepared by CAC 40-listed French companies. Four foreign companies (Dexia, EADS, ST Microelectronics and Arcelor Mittal) are also included. When companies do not have a 31 December year-end, the study is based on audit fees paid in respect of the periods ended 31 March 2007 (Air France KLM and Alstom) or 30 June 2007 (Pernod Ricard).

The study has a two-fold purpose. Specifically, it seeks to assess:

- the relative positioning of the main audit firms;
- how fees break down between audit and non-audit services.

The summary table of FY2007 and FY2006 data² reveals that:

1. overall fees fell slightly;
2. fees paid for services directly related to the audit engagement remained largely unchanged;
3. fees paid for non-audit services increased;
4. in some cases, the relative involvement of the joint auditors was markedly different;
5. the trend towards concentration in the accounting industry was confirmed.

1. Slight fall in overall fees

Measured on a like-for-like basis, overall fees paid to statutory auditors for audit and non-audit services totalled €728 million³ in respect of FY2007 compared with €752 million⁴ in 2006. This 3% fall mainly reflects the relative stability of the regulatory environment in 2007, with most of the audit work on IFRS and internal control being conducted in 2005 and 2006 following the introduction of Sarbanes-Oxley requirements for foreign companies listed in the USA.

The largest fee increases were 96% for Vallourec (attributable to quarterly reporting requirements, environmental disclosures and reinforced audit procedures for subsidiaries), 60% for Air France KLM (application of Sarbanes-Oxley to the 31 March 2007 financial statements) and 38% for Unibail (merger with Rodamco).

Some companies reported a significant reduction in their audit fees. This includes a drop of 26% for Pernod Ricard following its merger with Allied Domecq the previous financial year, 28% for Lafarge, which was delisted in the USA and therefore no longer required to comply with Sarbanes-Oxley or reconcile to

¹ COB Regulation 2002-06 on disclosure of fees paid to statutory auditors and members of their networks by publicly traded companies (COB Monthly Bulletin No. 375, January 2003)

² Cf. Table of Fees in Annex

³ €691.36 million for audit services + €37.06 million for non-audit services = €728 million in 2007.

⁴ €718.37 million for audit services + €33.40 million for non-audit services = €752 million in 2006.

US GAAP, and 36% for Suez, affected by Sarbanes-Oxley in 2006 but no longer required to reconcile to US GAAP in 2007.

The companies that paid the highest fees were Axa with €62 million (€64 million in 2006), Véolia with €47 million (€42 million in 2006), Crédit Agricole with €40 million (€36 million in 2006) and France Telecom with €39 million (€52 million in 2006).

The table below shows year-on-year changes in audit fees paid by financial institutions:

	Change 2006/2007	Reason
BNP Paribas	- 0.2%	
Crédit Agricole	+ 13%	Acquisitions in Greece, Italy and Spain
Dexia	- 7%	
Société Générale	+ 3%	

2. No material change in fees paid for services directly related to the audit engagement

Paragraph II of Article L. 822-11 of the Commercial Code prohibits statutory auditors from providing an auditee with advice or other services that are not directly related to the audit engagement.

The share of fees paid for services directly related to the audit engagement as a percentage of total audit fees remained largely unchanged, at 12.5%⁵ in 2007 versus 12.7% in 2006⁶.

In March 2008, three auditing standards covering services directly related to the audit engagement (audit, limited review and attest engagements) were approved by the Justice Minister.

3. Increase in fees paid for non-audit services

a. Review of the main legislation on auditor independence and on audit and non-audit services

Paragraph II of Article L. 822-11 of the Commercial Code states that if an auditor is affiliated with a network, it cannot audit the accounts of a person or entity that is receiving services not directly related to the statutory audit.

Under Article 24 of the Code of Ethics for statutory auditors, as set out in Annex 8-1 of the regulatory part of the Commercial Code, auditors are required to ensure that their independence is not impaired if a member of their network provides services to a person or entity controlled by or that controls the auditee within the meaning of Article L. 233-3 of the Commercial Code.

The Code of Ethics specifies that the independence of the statutory auditor is impaired if a member of its network engages in one of the following activities for a person or entity that controls or is controlled by the auditee:

- 1) Providing any service that would require the auditor to give an opinion about engagements or positions that the network or one of its members helped to prepare;
- 2) Performing management or administrative activities;
- 3) Hiring personnel that occupy sensitive positions at the auditee;

⁵ Total fees excluding services directly related to the audit engagement and other services to audit networks.

⁶ On a comparable basis in 2007 and 2006, excluding Arcelor-Mittal, Dexia, EADS and ST Microelectronics.

- 4) Book-keeping, preparing financial statements and drafting financial disclosures;
- 5) Introducing internal control measurement tools;
- 6) Acting outside the scope of the statutory engagement to prepare assessments of items intended for inclusion in the financial statements or financial disclosures;
- 7) Taking part in decisions concerning the design or introduction of financial reporting systems;
- 8) Providing legal services or advice that could influence the structure or operating procedures of the auditee, or in respect of people in sensitive positions;
- 9) Providing services or advice concerning financing or financial disclosures;
- 10) Providing tax services or advice that could affect the earnings of the auditee;
- 11) Defending the interests of senior management or acting on their behalf in negotiations or in efforts to identify equity partners or obtain financing;
- 12) Representing a group entity and its senior management in court, or carrying out an appraisal in a dispute involving these parties;
- 13) Taking over an outsourcing service, either totally or partly, in the cases mentioned above.

b. Findings

The share of non-audit fees had decreased every year since 2003, accounting for 5% of total fees in 2005 and 4% in 2006⁷. However, non-audit fees rose to 5% of total fees in 2007.

The highest fees for non-audit services paid in 2007 are shown below:

Paid by	Paid to	Amount (€m)	% of overall fees	Description of non-audit services ⁸
Axa	PwC ⁹	5.25	10%	-
Cap Gemini	PwC	3.3	47%	Legal, tax, labour law and other services provided in connection with client projects or pursuant to SAS 70, involving facilities that host applications for clients subject to Sarbanes-Oxley
Alcatel	Ernst & Young	2.53	20%	Non-recurring services governed by an agreement, provided by a member of an audit network to an issuer's subsidiaries in accordance with Article 24 of the Code of Ethics
Total	Ernst & Young	1.8	9%	-
	KPMG	1.4	7%	-
LVMH	Ernst & Young	1.24	11%	-
Vivendi	KPMG	1.1	16%	-

To comply with legislation, these fees are supposed in principle to cover non-audit services provided by the networks to fully consolidated subsidiaries, pursuant to Article 24 of the Code of Ethics. Where such services are material, the issuer should specify their nature in the Comments section of the Table of Fees.

4. In some cases, the relative involvement of joint auditors differed sharply

a. Review of the main legislation on joint audits

Article L. 823-15 of the Commercial Code states that auditors "carry out a joint examination of the accounting practices, in accordance with the instructions laid down in a code of professional standards. A code of professional standards also determines the principles that govern the distribution of the tasks to be carried out by each auditor in the accomplishment of their mission".

⁷ Share of fees paid for non-audit services as a percentage of total fees, excluding fees for services directly related to the audit engagement. Arcelor-Mittal, Dexia, EADS and ST Microelectronics are not included.

⁸ Comments based on published information.

⁹ PwC: PricewaterhouseCoopers.

A new standard of professional practice entitled "Audits Performed Jointly by Several Statutory Auditors" details the procedures for joint auditing. Approved by the Justice Minister on 10 April 2007 and published in the Official Journal on 3 May 2007, the new standard sets out the principles that govern how joint auditors should share out the various tasks. Specifically the tasks should be shared out in a concerted and balanced fashion, and this arrangement should be reviewed regularly.

"06. The statutory auditors will agree upon the sharing of the audit procedures that are set forth in the work schedule and that are required to implement the audit plan.

07. The auditors will share the tasks required to perform the audit, taking a balanced approach and using criteria that are:

- quantitative, such as the estimated number of hours required to perform the tasks, with the number of hours assigned to one auditor not being disproportionate¹⁰ to the number assigned to the other auditors; and
- qualitative, such as the experience and qualifications of the audit teams' members.

08. The auditors will work together during the course of the audit engagement to regularly redistribute tasks, either in full or in part."

This standard does not include arrangements governing entry into force.

In November 2007, the national audit supervising Board, the Haut Conseil du Commissariat aux Comptes, or H3C, published its opinion on the distribution of tasks between statutory auditors. The opinion states that where there is an uneven distribution of audit hours, this should be warranted by other criteria such as audit teams' experience or qualifications.

In this situation, auditors should ensure that the planned distribution of tasks does not prevent each party from performing the procedures specified in the aforementioned standard of professional practice, in particular those to be carried out by each statutory auditor. These include:

- acquainting themselves with the audited entity and its environment;
- assessing whether there is a risk that the financial statements taken as a whole contain material misstatements;
- determining the materiality threshold(s);
- defining and documenting the audit approach in a concerted fashion, along with the audit plan and work schedule needed to perform the audit;
- conducting analytical procedures that allow the overall consistency of the financial statements to be reviewed;
- reviewing the procedures performed by the other joint auditors;
- ensuring that information provided at the time the financial statements are approved presents a true and fair view of the auditee and is consistent with those financial statements.

H3C based its opinion on three practical examples.

In the first example, 75% of the audit hours are allocated to statutory auditor A and 25% to statutory auditor B. H3C considers that this arrangement does not enable auditor B to conduct all of the procedures required under the standard. However, the auditors may demonstrate that the allocation was based on qualitative criteria such as audit team experience or qualifications and therefore allows each party to conduct all necessary procedures.

In the second example, 80% of audit hours are allocated to statutory auditor C and 20% to statutory auditor D. All work on the parent company financial statements is performed by statutory auditor D, while work on the consolidated financial statements is performed solely by statutory auditor C. Only a single combined review is planned. H3C considers that regardless of whether audit hours are allocated evenly, the distribution of tasks in this case does not allow each statutory auditor to perform all the procedures required by the standard.

¹⁰ This standard deals with principles; it does not provide quantitative guidance.

In the third example, H3C considers that an audit in which 47% of audit hours are allocated to statutory auditor E and 53% to statutory auditor F appears to satisfy the quantitative criteria laid down by the standard for audits of parent company financial statements.

As a final point, since the standard applies to audits of both parent company and consolidated financial statements, any analysis of how audit hours are apportioned among the auditors needs to take into account the work performed in both areas.

b. Findings

In practice, despite a slight improvement, there are cases where the relative involvement of joint auditors was markedly different:

- Michelin: 90% for PwC and 10% for Corévisse (95% and 5% in 2006);
- Axa: 87% for PwC and 13% for Mazars (92% and 8% in 2006);
- Unibail¹¹: 80% for E&Y and 20% for Deloitte (83% and 17% in 2006);
- Essilor: 76% for PwC and 24% for Mazars (91% and 9% for Dauge in 2006).

For the second consecutive year, audit fees had to be broken out between those earned from the parent and those earned from services to subsidiaries, according to the format provided by AMF Instruction 2006-10 of 19 December 2006¹². Of the issuers mentioned above, the difference in the relative involvement of the joint auditors was smaller at the parent company level than at the overall level:

- Michelin: 50% for PwC and 50% for Corévisse (50% and 50% in 2006);
- Axa: 85% for PwC and 15% for Mazars (86% and 14% in 2006);
- Unibail: 54% for E&Y and 46% for Deloitte (53% and 47% in 2006);
- Essilor: 67% for PwC and 33% for Mazars (78% and 22% in 2006).

It should be remembered that fee payments correspond to worldwide fees and are affected by the existence and scope of an international network. As a result, fees paid at the parent level may include services linked to coordinating the worldwide audit, reflecting the considerable scale of the work done by the network.

5. Clear trend towards concentration in the French accounting industry

The table below summarises the number and value of audit engagements held by auditors:

	2007		2006	
	Number of engagements	Fees (€ million)	Number of engagements	Fees (€ million)
Ernst & Young	21	224	22	235
Deloitte	20	182	18	201
PricewaterhouseCoopers	13	160	13	169
KPMG	12	109	12	100
Mazars	12	52	12	46
Others	1	0,4	3	0.6
Total	79	728	80	752

Among the foreign companies in the sample, Arcelor Mittal and ST Microelectronics have a single auditor while Dexia and EADS have two. In 2006, two French companies from our sample, BNP Paribas and Pernod Ricard, had three statutory auditors. In 2007, only BNP Paribas retained its third auditor.

All the CAC 40 companies have at least one auditor from the Big Four.

¹¹ Company added to the CAC 40 index for the first time in 2007.

¹² Cf. Instruction 2006-10 of 19 December 2006 (in French): http://www.amf-france.org/documents/general/7597_1.pdf

Ernst & Young remained in the lead with 21 engagements (22 in 2006), while Deloitte consolidated its second-place position.

Mazars, though not one of the Big Four, now has the same number of engagements as KPMG. However, there was a larger gap in terms of fees.

