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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 the 2006-2005 period

The AMF has prepared a study of the fees paid to statutory auditors in respect of FY2006. 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 2002-06[1].

The study is based on information available in the registration documents prepared by French companies listed in the CAC 40 index of leading shares, which, as a matter of fact, limits this to 37 companies for the 2006 study. ST Microelectronics and Arcelor Mittal, both of which are foreign companies, were not included. Also, the required information could not be obtained for Pernod Ricard, whose financial year ends on 30 June 2007.

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

- the relative positioning of the main audit firms; and
- how fees break down between audit and non-audit services. Under France's Financial Security Act, to safeguard auditor independence, if a firm performs a statutory audit on a company, it may not also provide consulting services to the same company.

The summary table of FY2006 and FY2005 data[2] reveals that:

1. overall fees increased;
2. non-audit fees decreased;
3. in some cases, the relative involvement of the joint auditors was markedly different;
4. the trend towards concentration in the accounting industry continued.

1. Increase in overall fees

Overall fees paid to statutory auditors for audit and non-audit services totalled €728 million[3] in respect of FY2006, compared with €656 million in 2005[4], an 11% increase. These fees comprise payments to statutory auditors as well as any payments to the international networks to which they belong.

The increase can be traced back to a series of factors. First, these groups had a busy year, expanding briskly, especially on international markets. Changes to the regulatory environment also played a part. Another factor was that companies relied less on other audit networks for their foreign subsidiaries, concentrating thereby more audit services within the hands of their joint auditors.

The biggest fee increases were 59% for Alcatel Lucent, 58% for Axa and 47% for Suez. Since these companies are listed in the United States, the impact of applying Sarbanes-Oxley internal control legislation accounted for much of the rise in fees. FY2006 was the first year in which the new requirements took effect, so it may be that the efforts made in 2006 will not have to be repeated in following years. Additionally, the groups in question made some major acquisitions that significantly increased their audit scope.

[1] COB Regulation 2002-06 on disclosure of the 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] €695.52 million for audit services + €32.39 million for non-audit services = €728 million in 2006

[4] €619.94 million for audit services + €36.03 million for non-audit services = €656 million in 2005

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Fees also increased by 42% at Gaz de France, 41% at Crédit Agricole, 29% at Schneider and 21% at Lagardère.

AGF went against the trend, reporting a 27% reduction in fees. This may be because the impact of adopting IFRS affected 2005 financial statements only.

The companies that paid the highest fees were Axa with €59 million (€37 million in 2005), France Telecom with €52 million (€48 million in 2005) and Suez with €48 million (€33 million in 2005).

2. Decline in non-audit fees

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 statutory auditors shall not provide an audited person or entity with advice or other services that do not have direct relevance to the audit engagement. Furthermore, 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.

Article 10 of the Code of Ethics for Statutory Auditors, which was approved by Decree 2005-1412 of 16 November 2005, draws up a list of prohibited situations. Auditors are barred from providing an audited party, or the persons or entities who control that party or are controlled by it within the meaning of paragraphs I and II of Article L. 233-3 of the Commercial Code, with advice or services that do not have direct relevance to the audit engagement, as defined in the standards of professional practice.

"In this regard, auditors are prohibited from engaging in the following activities for the benefit of, on behalf of, or at the request of the audited person or entity:
1° Providing any service that would require the auditor, as part of the audit, to give an opinion about documents, assessments or positions that it helped to prepare;
2° Performing management or administrative activities, either directly or as a replacement for senior management;
3° Hiring personnel;
4° Drafting legal documents or providing a legal secretariat;
5° Handling or safekeeping funds;
6° Book-keeping, preparing financial statements and drafting financial disclosures;
7° Providing assessments in connection with asset contributions and mergers;
8° Introducing internal control measurement tools;
9° Acting outside the scope of the statutory engagement to prepare actuarial or other assessments of items intended for inclusion in the financial statements or financial disclosures;
10° Taking part in decisions concerning the design or introduction of financial disclosure systems;
11° Performing services related, inter alia, to advice on legal, financial, tax or financing issues;
12° Taking over outsourcing services, even partially;
13° Defending the interests of senior management or acting on their behalf in negotiations or in efforts to identify partners for equity transactions or obtain financing;
14° Representing the parties mentioned in the first indent and their senior management in court, or carrying out an appraisal in a dispute involving these parties."

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Furthermore, Article 17 of the code states that in joint audit situations, auditors shall disclose to each other any offers to supply the audited person or entity with services that have direct relevance to the audit engagement.

Under Art. 24 of the Code of Ethics, the auditor must ensure that its independence is not impaired if a member of its network provides services to a person or entity that is controlled by or that controls the audited person or entity within the meaning of subparagraphs I and II of Article L. 233-3 of the Commercial Code.

"The independence of the statutory auditor auditing the accounts shall be impaired if a member of its network provides one of the following services to a person or entity that controls or is controlled by the audited person or entity:
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, either directly or as a replacement for senior management;
3° Hiring personnel that occupy sensitive positions at the person or entity, within the meaning of Article 27;
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 disclosure systems;
8° Providing legal services or advice that could influence the structure or operating procedures of the audited person or entity, or in respect of people in sensitive positions within the meaning of Article 27;
9° Providing services or advice concerning financing or financial disclosures;
10° Providing tax services or advice that could affect the earnings of the audited person or entity;
11° Defending the interests of senior management or acting on their behalf in negotiations or in efforts to identify partners for equity transactions or obtain financing;
12° Representing the parties mentioned in the first indent and their 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 has decreased every year since 2003. It accounted for 5% of the total in 2005 and 4% in 2006.

The highest fees for non-audit services were paid in 2006:

Paid by	Paid to	Amount (€ million)	% of overall fees
• Axa	PwC[5]	4.717	8%
• Cap Gemini	PwC	2.685	42%
• BNP Paribas	Deloitte	1.729	16%
• Dexia	PwC	1.477	16%
• EADS	KPMG	1.402	17%
• LVMH	Ernst & Young	1.079	10%

[5] PwC: PricewaterhouseCoopers

To comply with the legislation, these fees are supposed in principle to cover non-audit services provided by the networks to fully consolidated subsidiaries, as stipulated in Article 24 of the Code of Ethics.

3. In some cases, the relative involvement of the joint auditors was markedly different

a. Review of the main joint-audit legislation

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".

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, the new standard was published in the Official Journal on 3 May 2007. It sets out the principles that govern how joint auditors are supposed to distribute tasks. Specifically, the tasks should be distributed in a concerted and balanced fashion, and the distribution 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 disproportionate[6] 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.

Until now, joint audits were covered by:

- the Code of Ethics[7], which does not provide guidance on task distribution, and
- CNCC Standard 1-201 entitled "Performance of Statutory Audits by Two or More Statutory Auditors", which sets down principles for joint audits (Standard 1-201 has now been replaced by the new standard of profesional practice approved by the Justice Minister).

Standard 1-201 stipulated the following:
"02. (...) Performance of the audit engagement shall entail the balanced participation and contribution of each of the auditors in efforts to complete the engagement (...)
03. The balanced participation and contribution of the statutory auditors (...) is reflected in the essential and complementary role that each auditor plays (...)
The notion of balance is measured using quantitative criteria, like the number of work hours, as well as qualitative criteria, such as involvement of the signatories, the structure and qualifications of audit teams, participant specialisations and involvement in particularly sensitive audit areas.

[6] The standard deals with principles and does not provide quantitative guidance

[7] Article 17 of the Code deals with on joint auditing.
When several auditors audit the accounts of a given person or entity, these auditors must belong to separate professional structures, i.e. ones that do not share the same senior managers, are not bound by equity or financial ties and do not belong to the same network.
The auditors shall disclose to each other any offers to supply the audited person or entity with services that count as tasks with a direct bearing on the audit engagement.
Where auditors working on the same engagement are unable to agree on their respective contributions, they must refer the matter to the chairman of the regional institute of statutory auditors with which they are affiliated, or, if they are affiliated with different regional institutes, to the chairmen of their respective institutes.

The notion of balance must not be reduced to, or confused with, the solely quantitative notion of sharing work equally, nor may it merely consist in setting a fee-sharing percentage in advance to demonstrate the balanced participation and contribution of each of the statutory auditors.
The notion of balance requires an open debate among the joint auditors on certain aspects of the engagement for which controls are coordinated though separate. This means that some tasks are duplicated, which will affect the total number of hours needed to complete the engagement (...)
21. When determining how to share audit procedures[8] and other audit requirements (...), statutory auditors take account of:
- the need to conduct the engagement efficiently, which means taking steps to avoid certain situations, such as unnecessarily duplicating some tasks or omitting other tasks;
- the technical resources and special skills that each auditor can offer and that need to be brought to bear (...)
- the need to rotate responsibilities for implementing audit procedures.
Procedures (...) should be shared (...) in such a way as to ensure the balanced participation and contribution of each party, as set out in paragraph 03 (...), and to ensure that auditors remain independent of each other.
In any case, the principle of sharing the audit work (....) means that a statutory auditor cannot take no part in carrying out the audit procedures and confine its contribution to reviewing the procedures performed by the other joint auditors and analysing their results."

Standard 1-201, then, also provides guidance solely on the principles of balance in joint audits. The standard of professional practice approved in April 2007 has not substantially altered these principles. However, the new standard does establish mandatory principles, some of which are new. For example, it requires each auditor to carry out tasks or perform additional audit procedures in certain situations and introduces mandatory rotation for some or all of the tasks.

The Committee on Ethical Standards for Auditor Independence (CDI) had also published guidance on joint auditing.

"The National Audit Review Committee (CENA)[9] asked the CDI to examine three imbalanced joint audit situations, where one of the two statutory auditors was insufficiently involved in the audit and therefore ran the risk of losing its independence as well as the objective standpoint needed to discharge its duties and sign off on its report (...).

In Recommendation 2000/05/18-02 of 18 May 2000, the CDI recalled the following basic rules:
- joint auditing must be based on a balanced distribution of the work schedule (...) and on mutual review (...). It is not necessary to establish specific quantitative criteria in this regard.
- the joint auditors must be clearly independent. For this, not only must the audit firms be independent of each another, but delegating all the audit tasks must be impossible, and each joint auditor must carry out a significant portion of the audit work.
- effective participation in the audit by each of the joint auditors shall be based on the absolute and relative time budgets allocated to each party, as well as on the time actually devoted to the tasks involved (...)

In Notice 2002/12/19-10 of 19 December 2002, the CDI reiterated and affirmed its Recommendation of 18 May 2000, stating that non-compliance with joint audit procedures

[8] In the case of an entity that prepares consolidated accounts, these audit procedures are designed to obtain evidence:
- on the annual accounts of the parent
- on the consolidation system and entries, as well as on the presentation of the consolidated accounts
- to show that the work done by other professionals on the accounts of consolidated entities, and that the joint auditors plan to use as the basis of their work, complies with the objectives set for the audit of the consolidated accounts.

[9] Quality control for statutory auditors done at the time by the CNCC. Renamed "quality control for public interest entities" following the creation of the High Council of Auditors (Haut Conseil du Commissariat aux Comptes, HCCC).

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occurred (...) if one of the statutory auditors performed none of the audit tasks and represented just 3% of the total audit budget."

b. Findings

In practice, there are cases where the relative involvement of joint auditors was markedly different:
- Michelin: 95% for PwC and 5% pour Corévise (92% and 8% in 2005)
- Axa: 92% for PwC and 8% for Mazars (88% and 12% in 2005)
- Essilor: 91% for PwC and 9% for Dauge (92% and 8% in 2005).

This year, for the first time, 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 2006[10]. At the three issuers mentioned above, the difference in the relative involvement of the two joint auditors was smaller at the parent company level than at the overall level:
- Michelin: 50% for PwC and 50% for Corévise (50% and 50% in 2005)
- Axa: 86% for PwC and 14% for Mazars (82% and 20% in 2005)
- Essilor: 78% for PwC and 22% for Dauge (77% and 23% in 2005)

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 large-scale work done by the network.

Note also that in 2005 Lafarge paid 1% of auditor fees to T. Karcher and 99% to Deloitte. This changed in 2006 to 35% for Ernst & Young and 65% for Deloitte.

4. Continued trend towards concentration in the French accounting industry

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

	2006		2005	
	Number of engagements	Fees (€ million)	Number of engagements	Fees (€ million)
Ernst & Young	22	236	23	222
Deloitte	16	169	15	158
PricewaterhouseCooper	12	165	12	135
KPMG	12	111	11	103
Mazars	11	46	11	37
Others	2	1	3	1
Total	75	728	75	656

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

Big Four firms accounted for an even larger proportion of audit engagements with Salustro's entry into the KPMG network in 2005.

Ernst & Young remained in the lead with 22 engagements, after 23 in 2005, with Deloitte consolidating its second-place position.

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

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Mazars, though not one of the Big Four, was not far behind PwC and KPMG in terms of the number of audit engagements, coming in fifth. However, there was a larger gap in terms of fees earned.

ANNEXE

Company	Joint Auditor A					Joint Auditor B					Joint Auditor C					Total 2006		Change 2005/2006		Total 2005	
	Audit firm 2006	Audit fees 2006	Audit fees 2005	Other fees 2006	Other fees 2005	***Audit firm 2006***	Audit fees 2006	Audit fees 2005	Other fees 2006	Other fees 2005	***Audit firm 2006***	Audit fees 2006	Audit fees 2005	Other fees 2006	Other fees 2005	Audit fees	Other fees	Audit fees	Other fees	Audit fees	Other fees
ACCOR	E&Y	2,7	2,7	0,1	0	Deloitte	8,6	9,1	0,3	0,5						11,3	0,4	-4,24%	-20,00%	11,8	0,5
AGF	KPMG	8,4	10,5	0,4	1,1	E&Y	2,9	4,9	0,4	0,1						11,3	0,8	-26,62%	-33,33%	15,4	1,2
AIR LIQUIDE	E&Y	4,832	6,481	0,707	1,403	Mazars	2,443	1,829	0,027	0,223						7,275	0,734	-12,45%	-54,86%	8,31	1,626
ALCATEL	Deloitte	11,519	7,564	0,172	0,31	E&Y	8,361	4,979	0,301	0,061						19,88	0,473	58,49%	27,49%	12,543	0,371
ALSTOM	E&Y	9,9	11,8	0,4	0,5	Deloitte	8,8	8,2	0,4	0,6						18,7	0,8	-6,50%	-27,27%	20	1,1
AXA	PWC	54,134	32,601	4,717	3,984	Mazars	5,185	4,635	0,266	0,247						59,319	4,983	59,31%	17,77%	37,236	4,231
BNP	Deloitte	9,013	9,528	1,729	0,464	PWC	11,385	11,55	0,645	0,552	Mazars	6,531	5,347	0,046	0,065	26,929	2,42	1,91%	123,87%	26,425	1,081
BOUYGUES	Mazars	4,445	3,578	-0,024	0,041	E&Y	3,03	3,214	-0,011	0,105						7,475	-0,035	10,06%	-123,97%	6,792	0,146
CAP GEMINI	KPMG	2,893	2,649	0,965	0,681	PWC	3,776	4,122	2,685	1,2						6,669	3,65	-1,51%	94,05%	6,771	1,881
CARREFOUR	Deloitte	5,21	4,717	0,166	0,702	KPMG	5,672	5,362	0,083	0,119						10,882	0,249	7,97%	-69,67%	10,079	0,821
CREDIT AGRICOLE	E&Y	18,298	10,617	0,266	0,026	PWC	17,036	14,519	0,152	0,129						35,334	0,418	40,57%	169,68%	25,136	0,155
DANONE	PWC	9	6,8	1	1,2	Mazars	3,2	2,7	0	0						12,2	1	28,42%	-16,67%	9,5	1,2
DEXIA	PWC	7,996	7,456	1,477	2,21	Mazars	3,001	2,59	0,019	0,161						10,997	1,496	9,47%	-36,90%	10,046	2,371
EADS	KPMG	6,811	6,949	1,402	1,152	E&Y	5,489	6,086	0,384	0,281						12,3	1,786	-5,64%	24,63%	13,035	1,433
EDF	Deloitte	7,826	11,033	0,708	1,032	KPMG	5,919	5,039	0,149	0,12						13,745	0,857	-14,48%	-25,61%	16,072	1,152
ESSILOR	PWC	3,061	3,345	0,435	0,11	Dauge	0,265	0,274	0	0						3,326	0,435	-8,10%	295,45%	3,619	0,11
FRANCE TELECOM	Deloitte	24,4	22,9	0	0	E&Y	28	24,8	0,1	0,3						52,4	0,1	9,85%	-66,67%	47,7	0,3
GAZ DE FRANCE	Mazars	4,611	3,639	0,028	0,016	E&Y	6,474	4,178	0,427	0,409						11,085	0,455	41,81%	7,06%	7,817	0,425
LAFARGE	Deloitte	13,5	23,4	0,8	2,5	E&Y	7,4	0,3	0,2	0						20,9	1	-11,81%	-60,00%	23,7	2,5
LAGARDERE	Mazars	4,026	3,66	0,176	0,174	E&Y	4,928	3,731	0,477	0,045						8,954	0,653	21,15%	198,17%	7,391	0,219
L'OREAL	PWC	6,241	6,323	0,306	0,36	Deloitte	5,577	4,835	0,179	0,344						11,818	0,485	5,92%	-31,11%	11,158	0,704
LVMH	E&Y	9,823	10,362	1,079	1,263	Deloitte	6,264	5,751	0,367	0,222						16,087	1,446	-0,16%	-2,63%	16,113	1,485
MICHELIN	PWC	3,983	4,108	0,451	0,454	Corévise	0,324	0,351	0,043	0						4,307	0,494	-3,41%	8,81%	4,459	0,454
PERNOD RICARD	Mazars	N/A	N/A	N/A	N/A	Deloitte	N/A	N/A	N/A	N/A	AL Genot	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
PEUGEOT	PWC	8,9	9,3	0	0	Mazars	1,9	1,8	0	0						10,8	0	-2,70%	N/A	11,1	0
PPR	KPMG	3,98	3,54	0,23	0,112	Deloitte	4,24	3,82	0,835	0,725						8,22	1,065	11,68%	27,24%	7,36	0,837
RENAULT	E&Y	6,36	6,151	0,12	0,382	Deloitte	6,159	6,645	0,658	0,646						12,519	0,778	-2,16%	-24,32%	12,796	1,028
SAINT GOBAIN	PWC	11,3	10,6	0	0,1	KPMG	10,8	9	0	0						22,1	0	12,76%	-100,00%	19,6	0,1
SANOFI AVENTIS	PWC	16,4	13,7	0,1	0,4	E&Y	15,7	14,3	0,2	0,9						32,1	0,3	14,64%	-76,92%	28	1,3
SCHNEIDER	Mazars	5,16	3,878	0,14	0,136	E&Y	9,198	7,28	0,245	0,249						14,358	0,385	28,68%	0,00%	11,158	0,385
SOCIETE GENERALE	E&Y	13,745	12,52	0,26	0,434	Deloitte	11,741	12,217	0,003	0,066						25,486	0,263	3,03%	-47,40%	24,737	0,5
SUEZ	E&Y	19,16	13,352	0,218	0,518	Deloitte	29,242	19,513	0,904	1,514						48,402	1,122	47,28%	-44,78%	32,865	2,032
THOMSON	KPMG	7,631	11,022	0,082	1,48	Mazars	4,894	2,356	0	0						12,525	0,082	-6,38%	-94,46%	13,378	1,48
TOTAL	KPMG	19,9	20,8	1,2	1,1	E&Y	20,9	16,2	1,3	1,5						40,8	2,5	10,27%	-3,85%	37	2,6
VALLOUREC	E&Y	0,317	1,398	0,096	0,007	Deloitte	0,708	0,247	0	0						1,025	0,096	-37,69%	1271,43%	1,645	0,007
VEOLIA	KPMG	21,7	19,7	0	0	E&Y	20,1	16,9	0	0						41,8	0	14,21%	N/A	36,6	0
VINCI	Deloitte	8,6	8,5	0,1	0,1	KPMG	8	7	0,1	0,1						16,6	0,2	7,10%	0,00%	15,5	0,2
VIVENDI	E&Y	10,9	9,4	0,1	0,1	KPMG	4,7	7,7	0,4	0						15,6	0,5	-8,77%	400,00%	17,1	0,1
Total		386,675	356,571	20,106	24,551		302,311	258,023	12,238	11,418		6,531	5,347	0,046	0,065	695,52	32,39	12,19%	-10,11%	619,941	36,034