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Twenty years of auditing in France (2000-2020): dynamics of the audit sphere as a result of regulation modes articulation between actors

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ABSTRACT

This study traces the changes of auditing in France over the past twenty years (2000-2020) and provides evidence of the mutations in the sphere of supervision of the profession, auditing standardisation and audit market. To explain the process of auditing changes, the theoretical framework relates to the articulation of the respective roles played by the State, the Profession and the Market in audit regulation as proposed by Puxty, Willmott, Cooper, and Lowe (1987).

Using archival documents from professional organisms and different evidence (law and doctrine, governmental documents, surveys data) as so as literature and historical analysis on the subject, the study sheds light on the concurrent interests and conflicts that the three poles underwent on the period before, during and afterwards the promulgation of the PACTE Law in May 2019 concerning the removal of the requirement for small and medium-sized enterprises to appoint a statutory auditor to certify their accounts.

Our historical analysis informs that the dynamism mirrors the dynamic nature of auditing itself, which is a product of political, historical, social and institutional contexts. The study therefore contributes to foster deeper understanding by contextualising auditing movements and facilitate future in-depth studies about audit regulation across space and time to address contemporary issues.

KEYWORDS

Audit; regulation; France; 2000-2020 period.

Introduction

Long-time rooted in the external verification of accounting information, the concepts of auditing¹ have been shaped primarily in the context of statutory audits of company accounts performed by independent professionals (Casta and Mikol 2009). In France, the statutory auditor (*Commissaire aux Comptes: CAC*) is entrusted by law with the legal audit mission, which consists of certifying the regularity, sincerity, true and fair view of the annual financial

statements (Art. L. 823-9 of the French Commercial Code, amended by Ordinance No. 2016-315 of 17 March 2016, Article 35). Within the framework of their missions defined by law, statutory auditors are allowed to perform other interventions and services.

The regulation and profession of auditing in France have been subject to regular changes since it first appeared in the Law of 23 May 1863 on limited liability companies. The fundamental legislative changes have been the following: Law of 24 July 1867 on commercial companies, Decree-Law of 8 August 1935 relating to the assignments of the auditors, Law n°66-537 of 24 July 1966 on commercial companies, Law n° 84-148 of 1 March 1984 relating to the prevention and amicable settlement of companies' difficulties, Financial Security Act No. 2003-706 of 1 August 2003, and finally, Act No. 2019-486 of 22 May 2019 on the growth and transformation of companies (known as the PACTE Law²), which abolished the obligation for small and medium-sized companies (SMEs) to make their financial statements certified by statutory auditors. The transformation of the audit environment and the regulatory changes for nearly a century and a half have affected auditors³ and their daily professional practice.

Research in the French context has studied the evolution of auditing: from the birth of the profession in the seventeenth century to the attainment of regulatory status in 1966 (Mikol 1993), through internationalisation with the establishment of large audit firms in the period from 1970 to 2000 (Ramirez 2003; De Beelde, Gonthier-Besacier, and Mikol 2009), until auditors became true multi-professionals in audit-related services at the end of the twentieth century (Casta and Mikol 1999). Various fields of investigation have also been explored according to the historical approach: the evolution of the statutory audit regulatory system in France in comparison with other developed countries (Bédard, Baker, and Prat dit Hauret 2002), of the French audit regulatory space over the 2003-2012 period (Hazgui 2013), and of the audit market (Pigé 2003; Piot 2005, 2008a; Kermiche and Piot 2018). On the one hand, we note the lack of research in certain fields of study such as the supervision of the audit profession, standardisation and the audit market in more recent periods. On the other hand, despite the growing role of the audit profession in society and the maturity of the discipline as an object of research, many researchers (Malo and Teller 1999; Bédard, Gonthier-Besacier, and Richard 2001; Chtioui and Soulerot 2006; Bessire, Levant, and Nikitin 2015) point to the lack of academic studies on the French audit profession, especially those based on a historical approach (Berland, Deville, Piot, and Capkun 2016).

In order to fill these gaps, the purpose of this study is to trace the evolution of the auditing sphere in France over the last two decades, by answering the following question: How was the

auditing environment and regulation established and evolved in France over the last 20 years? Is it a profound mutation in the roles and power relationship between actors in the auditing sphere, reflected in the enactment of the PACTE Law in May 2019? Our approach differs from previous studies in that it examines the dynamics of the regulatory auditing framework, highlighting the links and interactions between the profession and State representatives, but also the factors influencing audit regulation. Our study covers especially the period integrating the introduction of the PACTE Law. Perceived as one of the most important turning points in the history of auditing in France, it imposed lowering of the thresholds of statutory auditing in France. From historical approach, we discuss about the past by analysing series of events. We underline the different conflicts that have crossed the three poles (the State, the Market and the Profession) related to the following three dimensions: supervision of the profession, standardisation of auditing, and audit market. These dimensions were selected in our study because these are the three areas that have undergone the most changes over the last 20 years, and from literature review, we observed that they were not studied by researchers. By the ‘audit market’ dimension, we consider the market structure and market competitions between firms and suppliers of auditing services, which differs from the ‘Market’ organising principle developed in the theoretical framework and represented by users of financial statements, investors and their representatives, and companies that prepare financial statements.

This study draws upon the theoretical framework developed by Puxty, Willmott, Cooper, and Lowe (1987), which was based on the work of Streeck and Schmitter (1985). The framework underlined the interactions between three organising principles – State, Market, and Community – as the basis for construction of modes of accounting regulation adopted by a jurisdiction. Puxty *et al.* (1987, 275) suggested that an analysis of accounting regulation as a social and organisational phenomenon should require critical appreciation of its construction within a nexus of these organising principles.

We adopted a qualitative method to analyse data collected from various sources. Thematic analysis process was used to code and display the data.

The study presents evidence of the various ways and forms in which changes to accounting practices occur within organisations and in society (McWatters 1995; Robson 2007). The research has increased our understanding on the socio-political nature of accounting (Walker 2016) and accounting as social practice rather than a mere technical solution (Hopwood and Miller 1994).

Our study is organised as follow. In the first section, we develop the theoretical framework consisting of a review of the auditing literature from a historical perspective, the analytical framework mobilised and the research methodology. After recalling the history of the audit profession in France (Section 2), we study in particular the following dimensions: the supervision of the profession (Section 3), auditing standardisation (Section 4) and the audit market (Section 5). The analysis of the PACTE Law as a means and result of the contradictions between the three poles (the State, the Profession and the Market) is the subject of Section 6. In the final section, we discuss our results and contributions, offer concluding comments and propose avenues for future research.

Theoretical and methodological framework

Historical research on statutory auditing in France

The developments associated with auditing give rise to research topics (Bédard, Gonthier-Besacier, and Richard 2001). In France, the history of the auditing profession has interested several researchers (Mikol 1993; Casta and Mikol 1999; Bédard, Gonthier-Besacier, and Richard 2001; Ramirez 2001, 2003; De Beelde, Gonthier-Besacier, and Mikol 2009). Mikol (1993) studies the development of auditing and the independence of auditors in France, from the birth of the profession in the seventeenth century until 1966, highlighting the evolution of legal acts and the role of the State in the auditing sphere. Ramirez (2001) focuses on cultural elements as explanatory factors for the development of the accounting profession in the interwar period (1920-1939). Ramirez (2003) and De Beelde *et al.* (2009) examine the role and key factors of the success of large audit firms in the internationalisation of the French audit profession during the 1970-2000 period. Casta and Mikol (1999) highlight a considerable expansion of auditing assignments from auditing to consulting activities in recent decades; however, such an evolution may create many ethical problems and harm the auditor's identity.

In France, events related to the profession during the last 20 years have led researchers to investigate different fields: European audit reform (Ramirez 2013; Hottegindre, Belze, and Loison 2016; Loison, Hottegindre, and Belze 2020), the creation of the independent regulatory authority following the Enron bankruptcy (Pochet 2007; Hazgui 2015), the evolution of standards and practices for fraud prevention and detection in audit methodology (Carassus and Cormier 2003), the French history of the expectation gap analysed as a work of demarcation of auditors (Jedidi and Richard 2018), or the state of the art on the evolution of the little-known audit standardisation process (Fabioux 2023). The criteria for measuring audit quality have been

the subject of several studies, such as auditor independence (Richard and Rex 2002; Prat dit Hauret 2003, 2007), the usefulness of the audit report (Gonthier-Besacier 2001; Piot 2008b; Bédard, Gonthier-Besacier, and Schatt 2019), audit fees and audit committees (Broye 2009; Ben Ali and Lesage 2013; Le Maux 2014), audit quality according to the perceptions of different stakeholders (Gonthier-Besacier, Hottegeindre, and Fine-Falcy 2012, 2016), or according to firm performance indicators (Causse and Tran Vu 2012).

Our study complements the literature on auditing by examining the changes in the auditing sphere over the last two decades, through the articulation of the respective roles played by the State, the profession and the market. In particular, it highlights the concurrent interests and conflicts that these three poles have maintained before, during and afterwards the passage of the PACTE Law.

Analytical framework

Puxty *et al.* (1987) proposed a framework that analyses processes of accounting regulation as an outcome of interrelations between the organising principles of State, Market, and Community. This framework highlighted the political dimension in regulatory institutional settings. It emphasised tensions, conflicts and competitions exercised by various actors representing the organising principles throughout processes of accounting regulation.

The first principle of the framework – State – refers to the authority of hierarchical control that reinforces the role of the State and its representing agencies. The State provides a legal backing of audit environment by issuing laws and regulations. In this study, the actors representing the State are the Government, political leaders and regulatory oversight bodies (e.g., *Haut Conseil du Commissariat aux Comptes*: H3C, *Autorité des Marchés Financiers*: AMF) that have authority to decree rules and practices that auditors must follow and to maintain an enforcement mechanism.

The second principle of the framework – Market – underpins the contractual relationships between sellers and buyers to obtain mutual benefits, while tensions may arise from the basic conflict of interest between parties. In this study, ‘Market’ means that companies are generally free to select whatever audit services that best suit their needs. The actors representing the Market are users of financial statements, investors and their representatives, and companies that prepare financial statements.

The third principle of the framework – Community – refers to values and principles that are central to the development and maintenance of a community or civic group. It recognises the

profession as a community with which ideals such as collaboration, ethical conduct, trust, status, belongingness and privilege are associated. In this study, 'Community' is the professional association to which auditors feel their belongingness and share a code of ethics, common identity and values. Community encompasses the audit profession, auditors, professional associations (e.g., *Compagnie Nationale des Commissaires aux Comptes*: CNCC, *Compagnie Régionale des Commissaires aux Comptes*: CRCC) and profession's union organisations (e.g., *Expert - Comptable et Commissaire aux Comptes de France*: ECF, *Institut Français des Experts- comptables et des Commissaires aux Comptes*: IFEC).

Puxty et al. identified four modes of regulation in advanced capitalist societies and ranked them in ascending or descending order according to the relative weight of the Market and the State in regulation: liberalism, associationism, corporatism and legalism (see Figure 1). The framework developed by Puxty et al. was used in particular by Bédard, Baker, and Prat dit Hauret (2002) to study the respective roles of the State, the Profession and the Market in audit regulation.

In the liberal mode, control over auditors is provided exclusively by market forces; auditing is a good that is traded in markets (Bédard, Baker, and Prat dit Hauret 2002). In a market logic, auditors have an interest in building a reputation for honesty, and market forces pressure them to develop high quality standards, comply voluntarily, and assume unlimited liability (Thornton 1992).

In the associationist mode, control is achieved through the formation of associations that represent and defend the interests of their members (Bédard, Baker, and Prat dit Hauret 2002). The grouping of associations allows for the development of a collective professional identity, to make their members' skills better known to clients and stakeholders, to optimise the organisation of training and the development of professional practices and tools. Puxty et al. (1987) consider that membership in associations is voluntary and based on economic rationality rather than on a desire to share similar values; however, in the French context, such membership is inevitable through the mechanism of compulsory registration of the statutory auditor with a regional company of statutory auditors (*Compagnie Régionale des Commissaires aux Comptes*: CRCC) in order to be able to carry out statutory audit assignments. Auditors have a title (*commissaire aux comptes inscrit*) protected by law and by the association's statutes.

In the corporatist mode, the State does not simply allow the existence of organised interest groups, but it also integrates them into its centralised, hierarchical regulatory system and seeks to use them as an instrument in the pursuit and legitimation of its policies (Puxty et al. 1987,

284). In this mode of regulation, professional associations exercise some influence as a lobbying organisation but also as a provider of expertise to the regulator representing the State.

Although the strategies of associationism and corporatism tend to merge, the fundamental difference between them is that the State relies on interest groups to achieve public (State) objectives, as opposed to private (market) interests. In this mode of regulation, the auditors who are members of the association and the association itself always have an interest in building a reputation for honesty and integrity, by strongly aligning private interests with those of the public.

According to the legalism mode, control is based exclusively on principles enacted by the State. On the one hand, regulation is considered necessary when free market operations do not provide sufficient protection to stakeholders or when asymmetry of information exists between customers and their suppliers (Bédard, Baker, and Prat dit Hauret 2002). On the other hand, in order to ensure political legitimacy through the ballot box, pressure is exercised on government leaders to intervene in the economy to remedy shortcomings and irrationalities in the functioning of market principles (Puxty *et al.* 1987).

Certain modes of regulation dominate in some countries and regulation evolves from one period to another within the same country. The positioning of the mode of regulation between liberalism and legalism thus depends on many factors, such as the profession members, the State and its associated agencies, economic mutations, financial crises, cultural context and political changes. In addition, a mode of regulation is likely to affect audit policies and the content of audit practices. Finally, important contradictions exist within and between the organising principles of advanced capitalism; and regulation is seen as a means and result of articulating these contradictions (Puxty *et al.* 1987, 273).

Many accounting researchers have drawn upon Puxty *et al.*'s framework. The model has been mobilised in studies relating to the changes of accounting and auditing regulation in both developed and developing countries (Puxty *et al.* 1987; Saudagaran and Diga 2000; Bédard, Baker, and Prat dit Hauret 2002) and the evolution of accounting for goodwill over time following an international and comparative approach (Ding, Richard, and Stolowy 2008). It has also been used to explain accounting regulation changes in individual countries such as in Czech Republic and in China (Seal, Sucher, and Zelenka 1996; Hao 1999; Yee 2012) as so as the process of IFRS adoption in Vietnam (Nguyen and Rahman 2019). Suddaby, Cooper, and Greenwood (2007, 334) also used this framework to observe the role of large accounting firms and to explain the shifts in the logic of transnational regulation of professional services.

This study explores changes in the organisation and regulation of auditing in France over the last 20 years by using the framework of Puxty *et al.* We consider that this framework is useful for tracing changes in the audit regulation over time because it recognises tensions and competitions that exist within the nexus of three organising principles. The framework fits to our study to the extent that it helps to appreciate the historical dimension and the broader context of institutional arrangement for regulations and can explain the transformations of different modes of regulation through time (Ryan, Scapens, and Theobald 2003).

Research methodology

The purpose of this study is to trace the changes of auditing in France over the last 20 years. We adopted historical approach by examining series of events and qualitative methodology that consisted of the analysis of a set of laws, rules, professional doctrine and archives, as well as the literature review on auditing in France. This approach corresponds to our desire to observe conversations between actors as so as their actions and practices (Silverman 2006; Allard-Poesi 2019). To develop a greater understanding of the institutional context and explanatory factors, we supplemented primary sources with a review of relevant secondary sources.

Primary and secondary sources included archival documents relative to the PACTE Law disclosed by three poles (State, Market and Profession) before, during and after the event. We chose legislation and reports issued by the European Commission, the French Government, its associated agencies and experts. We selected articles and studies disclosed by press and independent institutes in order to provide a broader understanding of views and expectations of users of audit services. Communications and responses issued by professional associations (e.g., CNCC and CRCCs⁴) and professional union's organisations were particularly analysed in the study. We tried to collect as many sources as possible (laws, institutional texts, official speeches, surveys, etc.); however, we are aware of the non-exhaustiveness of the documents.

Primary and secondary sources, detailed in references, were classified chronologically. Thematic analysis process (Miles and Huberman 1994) was used to code, categorise, and note patterns of these heterogeneous and complex qualitative material to explore different level of themes and to provide a relationship between the sub-themes and factors, thus allowing to create a reasonable and logical chain of evidence (Braun and Clarke 2006; Creswell 2009). Following a 'Do-it-yourself' process (Allard-Poesi 2003), we analysed the content from various sources collected by establishing the cross-table 'Who says/does What, When and Why' to search the

logical validity of study and combined the codes drawn from the material and from the theory. Since the study is longitudinal (2000-2020), we made time series decomposition to identify the different phases of the evolution of the audit environment. The steps of data display and data-drawing were conducted by each researcher separately. Then we compared and verified together to arrange and organise research's concepts and thoughts.

The triangulation through multiple data sources and researchers cross-check analysis helped us to clarify contradictory and identical data, and to avoid the risk of circularity⁵ (Bergh 1905; Bamford 1993), thus allowed us to build coherent findings, to obtain structures of the results from the displayed data and to confirm the axes of analysis.

The audit profession in France: a historical review

In France, although auditing functions existed occasionally before 1863, the Law of 23 May 1863 established the legal auditing of accounts in public limited companies (De Beelde, Gonthier-Besacier, and Mikol 2009). The word "*Commissaire*" was thus introduced for the first time in French legislation through the Law of 23 May 1863 (Mikol 1993). However, it was the company Law of 24 July 1867 that instituted the function of "*Commissaire de sociétés*" in the middle of the industrial revolution. The auditor was called "*commissaire des comptes*", "*commissaire de surveillance*" (supervisor) or "*censeur*" (Houpin and Bosvieux 1935, 291). The question of the independence of auditors had not yet been developed in the 1863 Law; shareholders, relatives of directors or employees of the company were therefore all eligible to be auditors (Girardet 1937).

Only later, the Decree of 8 August 1935 clarified the role of the commissioner and thus strengthened the independence of this professional (Mikol 1993). The pre-war period was characterised by the financial crisis, parliamentary scandals and political collapse. On the one hand, directors, relatives of directors or employees were no longer allowed to act as auditors. On the other hand, auditors were no longer allowed to provide non-audit services to the clients whose accounts they audited. During this period, professional secrecy and the obligation to disclose illegal acts to the judicial authorities were introduced (Kovarik 1965). Auditors had a three-year mandate and could not terminate their engagement before the end of their term. However, the auditing profession did not yet exist during this period and the function of auditors was not limited to specific professionals; most auditors had no accounting background (De Beelde, Gonthier-Besacier, and Mikol 2009).

The creation of the “*Compagnie des Experts-Comptables de Paris*” in 1912 marked the beginning of an initiative to organize the accounting profession in France. A state-recognised certificate for accountants was then created by the Ministry of Education in 1927 (Mikol 1993, 5). Nevertheless, the organisation of the French accounting profession on a legal basis (*Ordre des experts-comptables et des comptables agréés: OECCA*) was not instituted until later by the Law of 3 April 1942.

The profession of statutory auditor was actually organised with the Decree of 12 August 1969 (modified on 27 May 2005), codified in the Commercial Code in August 2007. This text ratified the creation of the *Compagnie Nationale des Commissaires aux Comptes* (CNCC), a relatively recent creation for a function that is more than a century old. In fact, the title “*commissaire aux comptes*” (statutory auditor) was created on this occasion. It should be noted that it was the Decree of 12 August 1969 that established the auditing profession as a regulated profession. The objectives of the audit, the requirements regarding the qualification of the statutory auditors, their independence and their professional secrecy are thus prescribed on a legal basis. The CNCC was placed under the authority of the Ministry of Justice, while the OECCA was placed under the authority of the Ministry of Finance. The OECCA was transformed into the *Ordre des Experts Comptables* (OEC) in 1994⁶. In accordance with the mode of corporatism, the French government integrated professional associations into its control system by entrusting them with certain responsibilities and powers, but also by imposing constraints on their behaviour (Bédard, Baker, and Prat dit Hauret 2002); the code of ethics of the audit profession was incorporated into the regulatory part of the Commercial Code.

Thus, the auditing profession, officially created by the Law of 1867, only became a profession in 1969. In France, auditing and accounting followed distinct paths of professionalisation (Ramirez 2001, 406). While many “*commissaires aux comptes*” (CAC) are also “*experts-comptables*” (EC), the two professions are institutionally separated. This separation is essentially justified by the specificity of the legal requirements of the audit service in France, whereas the accounting revision is characterised by a contractual relationship between accounting professionals and their clients. This French singularity around two institutions undoubtedly finds its legitimacy in the history of a profession that knows two meanings of the concept of revision, a concept that contains a duality that is now well founded and that establishes boundaries that, seen from abroad, may appear more artificial (Rossignol and Saboly 2013).

The early 2000s were particularly significant in the history of auditing in France with the enactment of Law No. 2003-706 of 1 August 2003 (Financial Security Law or LSF), and concomitantly with the creation of the *Haut Conseil du Commissariat aux Comptes* (H3C), an independent administrative authority responsible for oversight of the auditing profession, thus putting an end to self-regulation of the auditing profession in France (Pochet 2007). The following period was also affected by the economic and financial crisis of 2008. The fact that many banks revealed huge losses on both on- and off-balance sheet positions raised not only the question of how auditors were able to issue unqualified audit reports for their clients during these periods, but also the question of the adequacy of the existing legislative framework.

As a result, on 13 October 2010, the European Commission (EC 2010) published the Green Paper on Audit Policy (*Lessons from the Crisis*) to open a debate on audit quality, audit firm governance and independence, auditor oversight, audit market configuration, provision of audit and non-audit services, and simplification of rules for SMEs. The European audit reform was completed in Europe in 2014 with the publication of two important texts: (1) Directive 2014/56/EU, which defined the framework for all statutory audits and thus strengthened public oversight of the audit profession⁷; and (2) Regulation No. 537/2014, which specified the statutory audit requirements for public interest entities (PIEs), such as listed companies, banks and insurance companies.

From this point forward, European audit reform required a rotation of auditors and PIE audit firms: the signatory partners could not certify the accounts of a PIE for more than six consecutive financial years⁸; and the maximum cumulative duration of the mission of the auditor of a PIE was limited to 24 years.

In addition, auditors were no longer allowed to provide certain non-audit services to the PIEs whose accounts they certified⁹. The European audit reform resulted in a substantial paradigm shift in France: everything that was not prohibited was now permitted, whereas previously everything that was not permitted was prohibited. During this period, the ethics code of the audit profession was successively revised in April 2017 and March 2020 in order to integrate the measures introduced by the reform¹⁰.

If the statutory audit was considered by the European Commission in its 2010 Green Paper as a potential administrative burden for SMEs (EC 2010), and if the thresholds making this audit compulsory for all EU companies were ratified by the 2013/34/EU directive, the French government only decided later, through the PACTE Law, to no longer impose statutory audit for small companies. The raising of the legal audit thresholds¹¹ in France was therefore an

incomparable shock that placed the French audit profession in an unprecedented crisis of legitimacy and identity (Dao-Le Flécher and Tran Vu 2020).

Finally, it should be noted that joint auditing is a specific feature of the French model. The decree of 8 August 1935 first required listed companies to appoint at least one of their auditors from the list maintained by the Courts of Appeal, composed of auditors selected on the basis of an examination of their technical competence. The Law of 24 July 1966 then imposed the obligation to appoint two "*commissaires*" on listed companies and on large private limited companies. The Law of 1 March 1984 finally refocused the application of joint audit on companies that published consolidated accounts. Joint audit in France has not evolved since 1984¹².

There are indeed a number of arguments in favour of maintaining and promoting the French model of joint audit. The presence of two auditors who support each other increases the importance given to their opinions and their ability to resist pressure from directors (CNCC Archives, Jean Sigaut, 10 March 1976), and thus strengthens their independence (Benecib 2004). Moreover, joint audit, a French exception (Marmousez 2012), is also seen as a way to oppose the domination of Anglo-American firms and to defend the interests of auditors in large French audit firms (De Beelde, Gonthier-Besacier, and Mikol 2009). Following the collapse of the Carillon Group (a British construction giant), the debate has reopened in Europe on the relevance of the joint audit model¹³ which was founded and practised in the French context. The regulatory authority for the audit profession in France (H3C 2021a) recommended that the European Union extend joint audit by making it mandatory for certain entities because it creates an emulation between statutory auditors that helps to enhance the quality of the audit and consequently the quality of financial information. The benefits of joint audit include: improved communication between CAC, management, and audit committees; increased authority of CAC vis-à-vis management and governance bodies; reduced risk of lack of independence from the audit client in times of crisis or distress; and reduced concentration in the statutory audit market (H3C 2021a).

Oversight of the audit profession in France

No formal control of the profession existed for over a century after the birth of auditing in France. It was not until the enactment of the Law of 24 July 1966 on commercial companies that the *Commission des Opérations de Bourse* (COB) was created in 1967 as an independent administrative authority in charge of supervising the capital market. In addition to its main activity of controlling the financial information of listed companies, the COB was also

responsible for supervising the CAC, thus reviewing the quality of the audits performed, as well as the procedures for acceptance of audit mandates and non-audit services provided by audit firms. It also played the role of ratifying the appointment and renewal of statutory auditors of listed companies.

Although the COB had no decision-making power, companies often asked its opinion when renewing audit mandates (De Beelde, Gonthier-Besacier, and Mikol 2009, 42). The regulator could then require the company under its control to change auditors when there was negligence or lack of competence on the part of the auditor(s) signing the audit mandate (Dao 2005, 123).

The *Comité de l'Examen National des Activités* (CENA), a body emanating from the CNCC, was then entrusted with the quality control of the audit of listed companies. In agreement with the COB, the CENA examined the audit of the financial statements of each listed company at least once every six years, the normal duration of the audit mandate in France. For each file, the CENA transmitted a report to the COB, which could form its own judgement. In cases where the CENA concluded that there was a doubt about the auditors' compliance with the independence rules, the COB asked the external advisory body (*Comité de Déontologie de l'Indépendance: CDI*) for an opinion. The auditors could thus use the COB's opinion as a negotiating tool to resist pressure from the managers of listed companies to disclose additional information and comply with accounting principles in their future financial statements. In other words, the audit quality control jointly carried out by the CENA and the COB helped to strengthen auditor independence (Dao 2005).

Shaken by the Enron phenomenon and inspired by the Sarbanes-Oxley Act as a kind of mimicry (Lesage, Hottegindre, and Baker 2016), the French government introduced the Financial Security Act, which enacted one of the most important reforms in history: the creation of *Haut Conseil du Commissariat aux Comptes* (H3C), an independent public regulatory authority, marking the end of self-regulation of the audit profession in France. A parallel can therefore be observed between the H3C and its American counterpart, the PCAOB (Public Company Accounting Oversight Board) (Pochet 2007).

Since its creation, the H3C was entrusted with numerous missions. Article L. 821-1 of the French Commercial Code stipulated, among other things, that: (1) the H3C defined the framework and guidelines for quality controls, supervised their implementation and could issue recommendations for their follow-up; (2) it adopted standards relating to the ethics of statutory auditors, internal quality control and professional practice; and (3) it conducted investigations into breaches of the ethics rules by CAC and imposed sanctions. CAC could also ask the H3C

for advice on questions relating to the interpretation of the ethics rules in a particular professional situation. Finally, the H3C was given a new mission to maintain relations with its foreign counterparts (Order of 8 September 2005).

Until 2003, audit quality control was entrusted to the profession (the CNCC) and to the CENA with the support of the COB for the review of audits quality of listed companies. After 2003, the H3C was responsible for directly carrying out quality control of CAC with PIE mandates. In addition, it was also responsible for supervising audits of SMEs. Quality controls of the professional activity of CAC not holding PIE engagements were in fact carried out by the professional association pursuant to the delegation agreement approved by the Minister of Justice (Order of 25 April 2017). In certain cases, the H3C could itself carry out certain quality controls of non-PIE audit firms. While the frequency of quality controls remained the same (at least once every six years), this period was reduced to three years when auditors certify the PIEs' accounts. However, since 2021, the H3C has been adapting the intensity and profoundness of its quality controls based on a risk-based approach, putting an end to the single triennial or sexennial quality control (H3C 2021b).

Following the H3C's creation, the system of oversight of audit quality in France thus evolved from the mode of corporatism, according to which responsibility for audit oversight was shared between the State and the profession, to the mode of legalism, according to which State intervention was considered necessary to remedy the shortcomings of the principles of associationism and the market (Puxty *et al.* 1987). The bankruptcy of Enron and the disappearance of Arthur Andersen, although they did not occur on French territory, led the State to intervene in the regulatory space of auditing; the system of self-regulation characterised by confraternal controls carried out by the professional associations was considered insufficient to provide effective protection for the market and stakeholders.

The Financial Security Law (LSF) did not provide a clear outline of the relationship to be built between the H3C and the audit profession (Marini 2003). However, this law initially maintained an important role for the audit profession in the development of auditing standards¹⁴ and ethical rules, as well as in audit quality control. In order to gain power and defend its growing power in the audit regulatory space in France, the H3C maintained, since its creation, a certain ambiguity regarding the position of the CNCC vis-à-vis the audit regulator and the possible conflicts in terms of competences between the two institutions (Hazgui 2015). Members of the professional association resisted this by always building a reputation for integrity and honesty,

aligning their private interests with those of the public and providing their expertise to the regulator (Thornton 1992; Puxty et al. 1987).

In France, the disciplinary responsibility of statutory auditors was governed by a mixture of legalism and corporatism since the law institutes this responsibility and delegates it to the profession to investigate and to the disciplinary chambers to rule on the action (Bédard, Baker, and Prat dit Hauret 2002). Since the Law No. 2019-486 of 22 May 2019¹⁵ (PACTE Law), the regional disciplinary chambers were abolished and the H3C was now given disciplinary jurisdiction to rule on a sanction procedure against an auditor, which led to a further strengthening of the role of the State in the regulatory space of the profession. The French audit landscape was transformed from a mixture of legalism and corporatism to independent regulation under the control of the State, highlighting the concurrent interests and conflicts that ran through the State and the profession (Puxty et al. 1987).

Audit standardization

After its creation in 1971, the CNCC set up a due diligence committee which was responsible for drawing up the first set of recommendations relating to professional diligence (Casta and Mikol 1999). In 1987, its National Council reorganised the recommendations into two categories: mandatory professional standards and good practices to be used by auditors according to their professional judgements. The first edition, "*Standards and commentaries on standards relating to the performance of engagements*", was drawn up on this occasion, highlighting the beginning of the process of professionalisation of auditing standards in France. Significant efforts were made by the national board of the CNCC in 1997 to align the structure of French professional standards with those issued by the International Federation of Accountants (IFAC), contributing to the harmonisation of audit methodology and professional practices in France. If the auditing rules were perceived by the auditors of the 1980s as a guide to be used on a voluntary basis (called "recommendations" at the time), the auditors of the late 1990s could no longer ignore the mandatory nature of the auditing standards (Casta and Mikol 1999).

The Financial Security Law (LSF) of 1 August 2003 marked the beginning of the audit standard-setting process on a legal basis in France, by entrusting the development of auditing standards to the professional organisation of statutory auditors (CNCC), which had to then transmit them to the Minister of Justice for approval, after receiving the opinion of the H3C. During this period, the development of professional standards remained the exclusive

competence of the profession. For a long time, these standards were simply private rules, but after the LSF Law, they acquired the status of ministerial orders. This public character made them enforceable against third parties and thus institutionalised the standardising role of the CNCC.

In carrying out its first tasks of assessing the quality of the professional standards applied by auditors in the performance of their statutory audits, the newly created audit regulator (H3C 2005, 2006 Annual Report of the High Council) rejected all of the professional standards in force in 2003 and required the profession to reformulate them and bring them into line with the principles published by the IAASB (International Auditing and Assurance Standards Board). In particular, it highlighted the lack of clarity in French professional standards and criticised the profession for using vague wording that left much room for interpretation. The H3C thus mobilized its legal authority, the instrumental and systemic dimensions of its power, but also the legitimacy that it had acquired from the international standard-setter, to force the profession to improve its standards (Hazgui 2015). The discursive strategies adopted by the H3C in the early years of its creation helped legitimise its participation in the standard-setting process alongside the CNCC. The findings from the H3C's quality controls of audit firms enabled it to identify gaps in the professional standard-setting framework (Fabioux 2021).

Following the European audit reform, the audit standard-setting process was significantly modified in 2017. At the initiative of the H3C, or at the request of the Minister of Justice, the *Autorité des Marchés Financiers* (AMF), the *Autorité de Contrôle Prudentiel et de Résolution* (ACPR), or the CNCC, draft standards were prepared by a joint committee placed under the auspices of the H3C and composed equally of four H3C members and four statutory auditors (H3C 2017, Rules of Procedure). The standards were then adopted by the H3C after receiving the opinion of the CNCC. Finally, they were approved by order of the Minister of Justice (Article L. 821-14 of the Commercial Code). Thus, the regulatory oversight body of the auditing profession was now involved in the standard-setting process as a key player and the development of professional standards was no longer the prerogative of the profession.

Drawing upon the analytical framework of Puxty et al. (1987) and the study of Bédard, Baker and Prat dit Hauret (2002) on the respective roles of three poles in audit regulation, we observe that the audit standard-setting process in France evolved over three periods, with an increasing influence of the State in standard-setting. The first period, from the creation of the CNCC in 1971 until the enactment of the LSF law in 2003, auditing standard-setting was characterised by a mixed model of associationism and legalism, according to which auditing standards are

developed by the professional organization that represents and defends the interest of its members and is established by the State through legislation. The CNCC had full control over auditing and ethical standards. However, the law defined the main mission of the auditors and imposed some constraints on its internal functioning. Audit standard setting during the second period, from the creation of the H3C in 2003 until 2016, then evolved towards a model of corporatism whereby the State recognised the expertise of the association and used it for the implementation of its policy. Since 2017, it has turned to a mixed model of corporatism and legalism according to which the H3C - an authority representing the State - has taken control of the standard-setting process, while using the association's technical expertise for the development of auditing standards.

The audit market

Before 1960, the French audit market was not developed, despite the very early presence of offices of international audit firms in Paris¹⁶. Since 1960, this national market has also gone through three periods as observed in the international market (Dirsmith et al. 2015). The first period, from the 1960s to the 1980s, was characterised by the setting up to ensure the autonomy of auditing as a profession. The second, from 1980 to 2000, referred to the redeployment of consulting activities by audit firms to become true multidisciplinary partnerships. The third, from 2000 to the present, was marked by the weakening of public confidence, which has led to the strengthening of the control exercised by the supervisory body and the weakening of the auditor's power.

In the early 1960s, a combination of factors led to a major evolution of the audit market in France. The diminishing role of the State, the emerging demands of the financial markets, decolonisation, the Europeanisation of French companies and the intensification of international competition gave private companies a more important role in the economy. The internationalisation of the auditing profession since 1960 was justified by the growing impact of international audit firms, whose presence in France was accepted by the State, and also by the imitation of the auditing approach by French professionals, being aware of their 20-year delay compared to their Anglo-Saxon counterparts (Ramirez 2003; De Beelde, Gonthier-Besacier, and Mikol 2009). As a result, the considerable expansion of the French audit market during the 1970s accompanied the international opening of the French economy (Casta and Mikol 1999), and conversely, the growing demand for audit services enabled the profession to enhance its status and power.

The significant influence of large international firms on the French audit market was also explained by their involvement in the development of professional standards and good practice norms (*Bonnes Pratiques Professionnelles: BPP*). The professional culture of the Big firms' network, their recruitment and work methods, as so as their standardised quality control system constituted an exemplary model for audit firms around the world (De Beelde, Gonthier-Besacier, and Mikol 2009). In France, a French model of excellence based on individuality and notability was replaced by a model oriented towards concentration in collective structures that regroup economic, cultural, social and symbolic capital (Ramirez 2003). Faced with the rapid development of Anglo-Saxon firms, French auditors were resisting and adapting in order to regain their legitimacy, autonomy, recognition, and also their prestige, to ensure a strong French presence in the audit market. As an example, the use of an Anglo-Saxon name for an audit firm was prohibited between 1975 and 1979; the French Association for the Development of Auditing (*Association française pour le développement de l'audit: AFDA*) was created by Salustro in 1982 (Ramirez 2003; Jedidi and Richard 2018).

The position of international audit firms in France was only stabilised after a significant movement to structure the market in the 1980s, in the form of consolidation of French firms, or mergers between Franco-French firms and representatives of international networks, or regroupings between the large international audit firms themselves. During the period from the 1980s to the 2000s, the French audit market underwent two major changes (Pigé 2003): (1) the concentration of large audit networks observed in the 1970s, which went from eight to four Big after the mega-merger of PriceWaterhouse and Coopers & Lybrand in 1998 and the disappearance of Arthur Andersen in 2002 due to the Enron scandal; and (2) the polarisation on the issue of independence as a key factor of audit quality.

Indeed, during the 1990s, the major audit firms redeployed their consulting portfolios in order to deepen the knowledge of internal audit for their clients, to become true multidisciplinary partners. This evolution raised issues of auditor independence, responsibility, and ethics. Following the report of the Yves Le Portz working group at the end of 1997¹⁷, audit firms were no longer authorised to propose both consulting and statutory audit services. A change in the scope of audit firms' activities was therefore noted in 2001-2002, such as the separation of consulting activities at PWC and KPMG.

Briefly, three factors characterised the French audit environment (Piot 2001): less liberal than the Anglo-American one; weak legal protection for outside investors, both shareholders and creditors (La Porta et al. 1998, 2000); and the composition of entrepreneurial organisations with

concentrated ownership and high management power. The six-year audit mandate also limited free competition in the market (Piot 2003). The requirement for joint audit in companies publishing consolidated financial statements allowed small and medium-sized audit firms to access the mandates of large companies jointly with the Big 4 (Kermiche and Piot 2018), as observed in most listed companies (Marmousez 2012).

In this mature and saturated market, three categories of audit firms existed in parallel: the large international firms (Big Six), the large national firms (Majors) and the others (small and medium-sized local firms). This market was characterized by a turnover dominance of the large Anglo-Saxon firms (Casta and Mikol 1999; Pigé 2003), a global and sectoral concentration leading to a situation of oligopoly on the market for listed companies (Piot 2005; 2008a) and barriers to competition between firms according to the characteristics of their client portfolios (Piot 2001).

Despite the dominance of the Big-Six in large audited companies, the Majors played an important role in the audit market, particularly among medium-sized audited enterprises, and controlled certain industries. Moreover, the size, organizational complexity, and international operations were not significantly different between clients of the Big-Six and the Majors, which promoted competition between the two types of auditors in the market for listed companies, while local audit firms had smaller, less complex, and less geographically dispersed clients (Piot 2001).

Over the last 20 years, there have been important movements in the French audit market, including the disappearance of Arthur Andersen in 2002 and the merger of Salustro Reydel, one of the Majors, with KPMG in 2004 after the Vivendi Universal affair. As a result, the French audit market has become more concentrated: the Big - Five have become the Big - Four, the seven Majors have become five following the acquisition of Calan Remolino by Deloitte & Touche in 1998, the merger of Amyot Exco and Fidulor at the end of 2001 within the Grant Thornton network, and the merger between Deloitte France and BDO Marques et Gendrot in 2006.

However, the audit market for SMEs did not seem to be affected by the consequences of the Enron collapse: small audit firms took advantage of the Anglo-Saxon default system to strengthen their position thanks to their proximity to their many SME clients¹⁸. These firms still possessed the normative legitimacy of the obligation to carry out statutory audits in SMEs.

Following the financial crisis in 2008, in its Green Paper, the European Commission (EC 2010, 16) raised the issue of the concentration of the audit market at the European level. This concentration contributed to systemic risk and a lack of dynamism in the market, so that non-Big firms continued to suffer from a lack of recognition of their capabilities by the largest clients. The Commission therefore proposed a number of measures such as joint audit in listed companies, foundation of a mandatory consortium of audit firms to encourage the emergence of other actors and the growth of small and medium-sized audit firms, mandatory auditor rotation and competitive tendering. At the same time, it proposed the simplification of the rules applicable to SMEs and small and medium-sized auditing firms. The latter, which was very present in the French audit market, was always supported by the State until 2015.

However, the entry into force of stricter requirements for PIEs following the European audit reform in 2016 questioned the uniqueness of the CAC profession in France - with a distinction between two types of audit firms: those with PIE mandates and those without. In addition, small audit firms could withdraw from this market due to a lack of resources, resulting in a high concentration of the PIE market.

Thus, during the 1960-1980 period, the messy competition of national and international audit firms and the needs of French companies led to maturity of the audit market. The increasing role of the Big 8 was partially hindered by the solidarity, initially spontaneous and later structured, of the French auditing community. During this period, the regulatory model was characterised by a mixture of liberalism and associationism (Puxty *et al.* 1987), notably with the creation of the CNCC in 1969. The hesitation in hierarchical control and the State intervention in this emerging market were justified by a lack of hindsight and the State's awareness of the liberalism model in the French auditing sphere.

During the 1980-2000 period, the State did not simply license the existence of organized interest groups such as the CNCC and the CRCCs. It incorporated into its own "public" interest the hierarchical system of regulation, such as mandate duration, joint audit, or auditing and consulting separation, in order to allow for the parallel existence of three categories of audit firms and to ensure auditor independence, a *sine qua non* condition of audit quality (DeAngelo, 1981). In doing it, the State simultaneously acknowledged its dependence on these associations and tried to use them as an instrument to legitimize its manifest. There was, however, a growing awareness on the part of the State of the challenges of concentration of market dominated by the Big Five and of the usefulness of statutory auditing for society. The corporatism mode seemed to correspond to the characteristics of this period.

Legalism was very present at the beginning of the 2000s via the reinforcement of the control of audit firms by regulatory bodies, subsequently reframing the audit market. The PACTE Law questioning the usefulness of the statutory audit in SMEs confirmed the role of the State and oriented the market towards liberalism. The promulgation of this law in May 2019 caused intense contradictory debates between the different stakeholders, namely the State, the Profession and the Market to which we turn in the next section.

The PACTE Law as a means and result of the articulation of contradictions between the State, the Profession and the Market

Indeed, the Minister of the Economy and Finance and the Minister of Justice referred the matter to the General Inspector of Finance (*Inspection Générale des Finances: IGF*) on 22 November 2017, after the thirtieth congress of the CNCC, to carry out a mission on the consequences of the European audit reform and the impact of the obligation of statutory audit on the competitiveness of French SMEs. In its summary report published in March 2018¹⁹, the IGF recognised that, unlike Germany and the United Kingdom, France set thresholds far below the level retained by European law and that the French audit market was less concentrated than those of neighbouring countries²⁰.

In addition, the auditor's service was considered too costly for SMEs²¹ and redundant with that offered by the chartered accountant²². The advantages of the CAC were therefore little understood by the managers of small companies. Moreover, according to the IGF, the effect of the presence of a statutory auditor on the quality of the tax base was not perceptible, as the proportion of audits without adjustment was similar for companies with or without mandatory certification. The usefulness of the auditor was not demonstrated either in the area of financing small businesses or in preventing their failure. Consequently, the IGF report proposed to align the audit thresholds for small companies with the level adopted by other European countries: *“In the search for the right balance between making accounts more reliable and reducing cost for small businesses”* (IGF 2018, 2) *“the proposed approach [increasing the statutory audit threshold] is based on empowering the actors and on the ability of chartered accountants and statutory auditors to find, outside the legal obligation, solutions tailored to the constantly changing needs of small businesses”* (IGF 2018, 39)²³. IGF estimated that the maximum loss for the profession, resulting from the loss of all mandates made non-compulsory, would be

approximately 620 million euros after six years and would affect small structures more than large firms.

In response to the Government's proposed increase in audit thresholds, in its White Paper²⁴ published in April 2018, the CNCC contested that the comparative analysis of thresholds with other European countries as incomplete²⁵. The sole reference to Germany was understood from a strictly political point of view but irrelevant because it ignored a fundamental difference in behaviour in terms of discipline and compliance with laws and regulations, and also the differences in the composition of the economic fabric²⁶. According to the CNCC, the audit costs of French companies were much lower than those of their neighbours. Moreover, measuring the usefulness of the statutory audit by the number of reserves issued and disclosures of criminal acts was tantamount to denying the basis of the auditor's mission, which was to contribute to risk prevention and to dissuade the occurrence of acts contrary to laws and regulations. The anomalies detected were in fact corrected before the certification of the accounts and *"the mention of a reserve or a refusal to certify testify in effect to a failure in the dialogue with the management of the company or with its governance that the auditor has not managed to convince"* (CNCC, White Paper, 2018, 6). The CNCC concluded that, on the contrary, the CAC secured the tax base and facilitated the financing of small businesses. It therefore stigmatised a misunderstanding of the two professions (CAC - EC) and estimated for its part the loss of turnover at 881 million euros, corresponding to a suppression of 153 828 mandates and 6 300 jobs.

In view of the intense debate between the profession and the State, a committee of experts chaired by Patrick de Cambourg, Chairman of the French Accounting Standards Authority (*Autorité des Normes Comptables: ANC*), was set up, at the initiative of the Government, in order to carry out a consultation process with the various stakeholders in the audit market²⁷. This committee proposed measures to support the profession in order to offset the increase in statutory audit thresholds and the loss of mandates, including the new statutory audit of small entities (*Audit Légal des Petites Entités: ALPE*) over a period of three fiscal years and the expansion of CAC assignments while co-ordinating with the EC.

Notwithstanding the challenges of professionals²⁸²⁹, the PACTE Law went into effect in May 2019. The first assessment published by the CNCC in May 2021 indicates that 19 129 PE mandates were lost in 2018 and 2019 fiscal years and attributable to the consequences of the PACTE Law, and that approximately 45 per cent of expiring PE mandates were not renewed in 2019 fiscal year. When renewals did occur, small companies in many cases chose the traditional

six-year audit engagement. As for the number of CACs voluntarily leaving the profession, there were 400 fewer registrants in 2019³⁰. Audit firms as a whole recorded a decrease in fees of 36 million euros and 44 million euros in the 2018 and 2019 fiscal year respectively, however significantly less than that estimated by the Government and the profession itself during the passage of the PACTE Law.

The second edition of the CNCC barometer on small business mandates published in April 2022 confirmed this trend of loss of fees: 10 514 mandates lost as a result of the increase in the thresholds, or 52 per cent of the mandates that expired, equivalent to 41 million euros in fees³¹. The main reasons for non-renewal of a mandate noted by professionals corresponded to those put forward by the State during the implementation of the PACTE Law, namely the dual presence of the EC and the CAC within the same company, a too high audit cost for SMEs and the lack of usefulness of the CAC demonstrated in companies with less complex structures and activities.

The lack of awareness of the role of the CAC in SMEs was confirmed in various studies. In a study conducted by the Messine Institute in 2015-2016 following the European audit reform, companies wanted CACs to take more risk and built an *intuitu personae* relationship with the audited entity, beyond the normative framework³². Another study conducted in 2019 among companies and users of financial information highlighted the weak points of CACs, namely too transactional relationships, a feeling of connivance with the chartered accountant, difficulties in prioritising risks, an inappropriate posture in times of crisis, and a feeling of culture clash with managers³³. In addition, the historical role of the auditing profession no longer corresponded to the latest market expectations. While before 2017, the needs of SMEs from their CACs were mainly in the accounting and financial fields, these were broadened in 2021 and went beyond purely financial analysis³⁴. New needs were created in the areas of business continuity, access to public aid, support in the strategic management of the company, transmission and decryption of regulations. Other needs were also highlighted such as ecological transition, information security or the development of innovation³⁵.

The implementation of the PACTE Law once again raised the question of the boundary between the CAC and the EC. Indeed, the debate between the two Presidents of the two professional bodies (the CSOEC and the CNCC) during the thirty-second edition of the CNCC's Congress on 9 December 2021 in Paris demonstrated the red lines between the two professions, audit and consulting. Lionel Canesi, President of the CSOEC, hammered at the time of the election campaign that there would be no question of talking about synergies between the Superior

Council and the National Company as long as the separation between auditing and consulting was not clarified on the side of the CNCC. For him, *"the PACTE Law is a danger for [the] profession, in its two professions"*, which required a strong response: return to the historical separation, with the legal for the auditor, and the contractual for the chartered accountant.

Nevertheless, according to Yannick Ollivier, President of the CNCC, *"locking the statutory auditor into the legal certification mission is a mistake and the PACTE Law should not be read as an opportunity for CACs to compete with EC: CACs have no place in the consulting world"*. According to him, the place of the CAC did not lie in a distinction between legal and contractual, but rather in the very nature of each profession, and companies now expressed a need for assurance in financial and non-financial information, a need that would not have been fully met by the legal audit mission. A "need for assurance" made Lionel Canesi react strongly because he saw a risk in this terminology, that of conveying the message to companies that the CAC had a greater independence than the EC.

These long-standing debates highlighted the blurred line between auditing and consulting. This confusion explained the lack of knowledge among SME managers of the role of each of these two complementary professions, practised simultaneously by many professionals³⁶. The cohabitation of the CAC and the EC does not seem to have been easy in an increasingly competitive market, especially when SMEs had the right to choose their service providers. In this regulatory space, each professional group worked to protect its market share and the interests of its members, by proving its usefulness in front of clients and by lobbying the regulatory bodies.

An analysis of the discourses of the State and the CNCC through the implementation of the PACTE Law highlights the contradictory views and expectations of stakeholders in the statutory audit profession. According to the Government (IGF 2018), this increase in thresholds reflected the choice of empowering stakeholders and forces statutory auditors to demonstrate their ability to find, outside of the legal obligation, solutions adapted to the constantly changing needs of small businesses. In this market logic, CACs had an interest in building a reputation for honesty and demonstrating their undeniable usefulness so that small companies were willing to pay for an audit to be carried out on a voluntary basis. The mode of regulation of auditing in France evolved, through the PACTE Law, towards a mixture between the mode of liberalism and the mode of legalism, resulting in contradictions within and between the principles of organisation in advanced capitalist societies.

The State, through its regulations, implemented its policy to reframe the structure of the audit market. The need to regulate in order to protect "consumers" (SMEs) from "monopolistic suppliers" (audit firms) best fits the mode of legalism of Puxty *et al.* (1987). In order to restore society's confidence and accompany economic growth, the State tried to reduce the information asymmetry and the expectation gap between clients and their auditors. Nevertheless, the fact that SMEs could choose to use auditing services on a voluntary basis according to the rule of supply and demand, directed the market towards liberalism. Following the example of Patrick de Cambourg's report published in June 2018, CAC henceforth had to prove the usefulness of its services not only to SME clients, but also to EC. As a result, the PACTE Law was perceived as a means and result of the articulation of these contradictions.

While the increase in thresholds in 2019 hurt auditors, they appeared to regain their legitimacy and usefulness to SMEs during the COVID-19 crisis. In anticipation of a wave of company bankruptcies, the State effectively called on the CAC to play the role of trustworthy guardian and whistle blower (Jeny, Richard, and Ramirez 2020). Article 1 of Ordinance No. 2020-596 in May 2020 gave the CAC the possibility to raise the alarm more quickly with the President of the competent court to prevent the difficulties of companies³⁷. The market was therefore reconfigured by a new articulation of the power relationship between the State, the Profession, and the Users of the audit service.

Discussion and conclusion

The study of the evolution of the statutory audit environment in France over the last two decades, in the light of the analytical framework of Puxty *et al.* (1987), provides elements for the analysis of the professional trajectory of auditing, which was constantly affected by economic, regulatory and political pressures. Since the recognition of auditing as a regulated profession in 1969, statutory auditors have played a full role in accompanying French companies in their national and international development, by adopting Anglo-Saxon practices, while building an exceptional French model. In the areas of supervision and standard setting, where the profession had previously held a dominant position, a mixture of associationism and corporatism was observed.

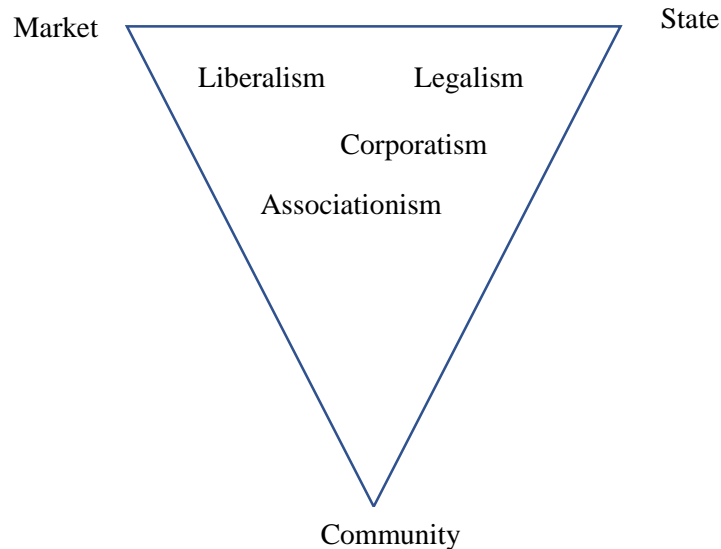
However, the articulation of the relationships between the three actors (State, Profession and Market), materialised by the increasing intervention of the State at the beginning of the twenty-first century in the audit sphere to deal with scandals and crises, demonstrated the growth of

legalism. The enactment of the PACTE Law in 2019 created an unprecedented shock in the history of auditing in France and also highlighted the concurrent interests and contradictions crossed by the three poles. The increase in statutory audit thresholds was now steering the market towards liberalism and forcing statutory auditors to deal with questions about their legitimacy and identity, not only vis-à-vis SMEs, but also vis-à-vis EC; the "decreed utility" that CAC previously enjoyed has shifted to "market utility."

This longitudinal study contributes to the literature on the sociology of the audit profession in a national context. The analysis of documentary resources has enabled us to highlight the events marking the history of auditing over the last two decades, the changes in the modes of regulation of auditing, as well as the factors affecting them. By considering interactions concerning professional associations and State representatives during the PACTE event, we examined the development of the links between them in a dynamic way. To some extent, we can infer that the preponderance of public interest over the private interest of the profession depends on the degree of regulation imposed by the law on the profession, as advanced by Bédard (2001). The constant mutations in the articulation of power relations between the three poles show that auditing is far from being a set of techniques that can be taken for granted and that require occasional improvements, but rather represents a series of hopes and aspirations (Power 2003).

A limitation of our study is the lack of verification of the lines of analysis developed by other empirical research methods. Furthermore, the framework of Puxty *et al.* does not consider the public's participation in the regulations. We encourage researchers to conduct more research from a historical perspective to improve understanding of the evolution of the auditing environment and regulation in national contexts, as well as the conditions affecting this evolution. Research questions on auditor independence and the evolution of ethical and deontological rules, particularly in the context of what appears to be an increasingly commercialized auditor-auditee relationship (Power 1995), deserve to be explored.

Figure 1: Modes of regulation in advanced capitalism according to dominant models of social order adapted from Puxty, Willmott, Cooper and Lowe (1987)



Notes

¹ The word "audit" comes from the Latin word "*audire*", which means "to hear", "to listen".

² In fact, the PACTE Law (*Le plan d'Action pour la Croissance et la Transformation des Entreprises* - The Action Plan for Business Growth and Transformation) aims to remove obstacles to business growth at every stage of development, from start-up to financing and transfer, and to share the value created by businesses more effectively with employees. It also enables companies to take greater account of social and environmental issues in their strategy.

³ In this article, the term "auditor" refers to professionals who perform statutory audits.

⁴ A number of exchanges between CNCC's Chairman Jean Bouquot and stakeholders throughout the passage of the PACTE Law in 2018, 2019 and other articles of press can be found at <https://www.cncc.fr/loi-pacte.html> (assessed on 31 August 2023).

⁵ The risk of circularity consists in the risk of focusing only on the facts that confirm theory. This risk exists in any scientific approach, but it is greater in the case of qualitative research in which material collected is rich and heterogeneous (Yin, 2008); it is therefore always easy to find the fact that supports the chosen theory (Dumez 2013).

⁶ It appears that prior to 1970, only regional institutes of *commissaires aux comptes* existed and that they were assembled in a federation that was not a true professional body under the authority of a ministry (De Beelde, Gonthier-Besacier, and Mikol 2009). A significant percentage of OECCA members were also auditors.

⁷ Transposed in France by the publication of Order No. 2016-315 of 17 March 2016 on statutory auditors. The Directive and the Regulation came into force in France as of 17 June 2016.

⁸ The waiting period was set at three years (two years before the reform).

⁹ The European texts therefore led to the disappearance of the concept of directly related diligence (*Diligences directement liées: DDL*) to the mission of the statutory auditor in France.

¹⁰ Decree No. 2017-540 of 12 April 2017, and Decree No. 2020-292 of 21 March 2020, amending the ethics code of the auditing profession.

¹¹ Prior to the PACTE Law, the thresholds for statutory audit in France were set at 2 million euros in revenue for simplified joint stock companies (SAS) and 3.1 million euros in revenue for limited liability companies (SARL); for public limited companies (SA); statutory audit was mandatory from the first euro of revenue. As part of the PACTE Law, the government decided to raise these thresholds to the European level to reach 8 million euros of turnover for all companies.

¹² Two French auditing standards (NEP 100 and NEP 600 adapted from ISA 600, both promulgated in June 2011) were developed to assist auditors in performing joint audits and audits of consolidated accounts.

¹³ In its public consultation on improving the quality of corporate reporting and compliance with disclosure requirements, the EC (2021, question 12) asked the public to comment on the impact of joint audit on audit quality. In its response to the EC's public consultation, the H3C (2022a, 48) stated that joint audits contributed to the improvement of audit quality.

¹⁴ Nevertheless, according to Article 821-1 of the French Commercial Code, while the CNCC, as the representative of the profession, remained in charge of developing professional auditing standards, it could receive a positive assessment from the H3C before being approved.

¹⁵ Article L. 824-8 of the Commercial Code.

¹⁶ Price Waterhouse arrived in France in 1916, Cooper Brothers and Arthur Andersen in 1929. The first French audit firm named *Fiduciaire de France* was created in 1922.

¹⁷ The 1997 Report by Yves Le Portz on the independence and objectivity of statutory auditors, commissioned by the COB and the CNCC, concluded that it was necessary to set up an ethics committee for the profession in order to develop jurisprudence on situations likely to affect the independence of auditing professionals.

¹⁸ There were 3.9 million SMEs in France in 2018 (Source: National Institute of Statistics and Economic Studies - *Institut National de la Statistique et Etudes Economiques: INSEE*).

¹⁹ Summary Report No. 2017-M-088-03, "*La certification légale des comptes des petites entreprises françaises*" [*The legal certification of the accounts of small French companies*] published by the IGF in March 2018.

²⁰ The share of the Big Seven (Big Four, Mazars, BDO and Grant Thornton) represented 26 per cent of mandates in France, compared to 74 per cent for the Big Four alone in the United Kingdom, which led to a very large number of French companies that are mandatorily certified, or 182 500 in France compared to 12 450 in the United Kingdom (Source: IGF 2018 Report).

²¹ The legal audit fees amounted on average to 5 500 euros for small companies, which represented a comparatively higher burden for them than for larger companies. In addition, derogations from the legal scale of hours required for the statutory audit were granted in 31 per cent of cases (Source: IGF 2018 Report).

²² The presence of the statutory auditor was added, in 75 per cent of cases, to that of a chartered accountant (Source: IGF 2018 Report).

²³ « *Dans la recherche du juste équilibre entre la fiabilisation des comptes et l'allègement des charges pesant sur les petites entreprises* », p2, « *la voie proposée fait le choix de la responsabilisation des acteurs et de la capacité des experts-comptables et des commissaires aux comptes à trouver, hors de l'obligation légale, des solutions adaptées aux besoins en constante évolution des petites entreprises* » p.39 (IGF Report 2018).

²⁴ "*Livre blanc de la profession des commissaires aux comptes pour participer à une économie de confiance et de sécurité* » [White Paper of the auditing profession to participate in a trusted and secure economy]. CNCC, April 2018.

²⁵ According to the CNCC, the IGF Report did not cite Spain, which chose intermediate thresholds for statutory audits, nor Sweden and Denmark, which were aware of the negative effects of higher thresholds on tax evasion, nor Italy, which recently decided to lower the thresholds for mandatory audits in small companies in order to address the reported increase in tax evasion.

²⁶ Germany had 46 255 certified companies compared to 182 500 in France, but audit fees amounted to 7.5 billion euros in Germany compared to only 2.5 billion euros in France, and French SMEs represented more than 95 per cent of French companies in number.

²⁷ Report "*Avenir de la profession des Commissaires aux Comptes*" [Future of the Statutory Auditors' profession] by the committee of experts chaired by Patrick de Cambourg, June 2018.

²⁸ « *La CNCC suspend ses relations avec le H3C* » [The CNCC suspends relations with H3C], Journal L'AGEFI Quotidien, 13 March 2019. « *Loi PACTE : la CNCC exprime sa colère* » [PACTE Law : The CNCC expresses its anger], Journal Le Monde du Chiffre, 14 March 2019.

²⁹ On 17 May 2018, for the second time in history, 4 000 statutory auditors out of approximately 13 000 in the profession demonstrated in many cities in France. One of the slogans was "A profession that does not want to die" (Source: *Les commissaires aux comptes dans la rue, inquiets pour leur avenir*, Journal L'EXPRESS, 17 May 2018).

³⁰ The number of auditors-individuals registered as of 31 December 2018 was 12 343 (H3C 2022b).

³¹ The study was based on an exhaustive analysis of the activity declarations made in 2021 by professionals on the audits performed for the 2020 fiscal year and on a survey of more than 1 500 CACs conducted between March and April 2021. Of the 252 603 mandates declared for the 2020 fiscal year, 144 991 corresponded to mandates in small companies, or 57 per cent of mandates, representing 726.6 million euros in fees, or 27 per cent of the profession's total fees.

³² Messine Institute Report, « *Attentes des parties prenantes vis-à-vis des commissaires aux comptes et évolutions possibles de la profession* » [Stakeholder expectations of statutory auditors and possible developments in the profession], July 2016.

³³ To prepare for the rebound in the face of the PACTE Law, the CNCC commissioned a market study in 2019 by an independent provider, including 35 free interviews and 1 000 questionnaires with clients and prescribers.

³⁴ According to François Asselin, President of the Confederation of Small and Medium-sized Enterprises (CPME), Discussion at the round table during the thirty-second CNCC Congress, Paris, 9 December 2021.

³⁵ According to Jean-Luc Montiel, Vice-president of the Medef - an employers' organisation representing French business leaders, Laurent Fromageau, Director of retail development of LCL, or Pauline Becquey of *Finance for tomorrow*, Discussion at the round table during the thirty-second CNCC Congress, Paris, 9 December 2021.

³⁶ As an example, the two professional unions (ECF - *Expert- Comptable et Commissaire aux Comptes de France*: EC and CAC of France, and IFEC - *Institut Français des Experts- Comptables et des Commissaires aux Comptes*: French Institut of EC and CAC) represent and defend both professions of chartered accountant and statutory auditor.

³⁷ Originally, this system was to end on 31 December 2020. By the Law n°2020-1525 on acceleration and simplification of public action (ASAP Law) of 7 December 2020, the government extended by one year, until 31 December 2021, the early triggering of the alert procedure by the CAC.

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