

The legal duration of an auditor's statutory mission with commercial companies is six financial years (see our memorandum "Legal audit in France – notable characteristics").

THE LEGAL AUDIT

During the first year of his mission, the legal auditor will establish an engagement letter in which he will define the terms and conditions of his involvement. He will transmit this letter to the entity to be audited prior to the commencement of his work.

In order to identify and assess the risks inherent in the preparation of the entity's accounts, the auditor is required to study:

- The entity and its environment;
- The entity's internal controls and regulations (operating procedures, information system contributing to the production of financial information...).

To conduct his legal audit, the legal auditor shall notably:

- Assign experienced staff and/or staff with specialist expertise according to the client's specific requirements;
- Implement auditing procedures (physical observation, analytical review, review on internal procedures) in relation with the conclusion of his risk assessment;
- Verify accounting records and documents in order to ensure their compliance with the legislation in force;
- Verify the information contained in the management annual report communicated to the shareholders ;
- Certify the statutory accounts, and, where appropriate, the consolidated accounts (clean report, qualified report or adverse opinion);
- Inform shareholders of the outcome of the legal audit through the establishment of a report:
 - on the entity's financial statements
 - on related-party agreements,
 - if necessary, on the entity's consolidated accounts
 - if necessary, on the president's report on internal controls and regulations.

OTHER OBLIGATIONS RELATED TO THE STATUTORY MISSION

The legal auditor conducts the legal audit, a summary of which will be disclosed in his report. However, he must comply with certain additional legal obligations.

The alert procedure

The auditor has to implement the "alert procedure" if during the legal audit he discovers any element likely to jeopardize the continued operations of the company.

Before implementing the alert procedure, the legal auditor will have a meeting with the managers so as to be better informed about the elements that he has discovered.

The alert procedure consists of three or four phases (request for clarification from CEO, information to the President of the Commercial Court, special "alert report" to the shareholders). The legal auditor may interrupt the alert procedure at any stage if he considers that satisfactory measures have been taken.

Exposing criminal activity

The auditor has to expose any criminal activity he happens to discover during his legal audit to the French Attorney General (i.e. infractions relating to the Commercial Law or any illegal activity likely to have a significant impact on the entity's accounts), especially those involving the entity's employees or managers.

Reporting money laundering to TRACFIN

The legal auditor must do everything in his power to reveal and impede money laundering or terrorist financing.

This obligation is implicit and applies to the legal auditor even before he has accepted the mission, as well as throughout his tenure. The auditor has to :

- Be vigilant with regard to his client and the effective recipient of the mission;
- Be vigilant with regard to his client's dealings and transactions;
- Report incidences of money laundering or terrorist financing to TRACFIN (a French government agency) as defined by the law.

All reports sent to TRACFIN are confidential, the legal auditor is forbidden from informing his client or any third parties if he discovers unlawful activity to be referred to TRACFIN. There is only one exception: the legal auditor may inform the French Regulatory Authorities of Statutory Audit ("Haut Conseil du Commissariat aux comptes", also called "H3C" in French).

**Place your trust in your Auditor.
Do not hesitate to contact us !**

This information is only a rough summary. It does not cover all the situations nor resume the whole French Commercial Law - which is very intricate. Please contact us for accurate information adapted to your situation. We cannot be held responsible for any misinterpretation of this document. Edition 06/2012