DIRECTION GÉNÉRALE DES FINANCES PUBLIQUES

Overview of the French accounting reform

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MINISTÈRE DE L'ÉCONOMIE ET DES FINANCES

The issues of the accounting reform

- To enhance public finance management: high transparency of public entities financial situation.

- To improve the public sector management by:
  - knowledge and management of public entities real estate,
  - knowledge of the current and future expenses.

- **To secure financial procedures**: continued use of the accounting and financial internal control (identification and management of the accounting and financial risks).

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Quality objectives for public entities accounts

Requirements for quality of public administrations financial statements strengthened by the 2008 revised version of the Constitution

- Article 47-2 of **the Constitution stipulates** that: *“The accounts of public administrations shall be lawful and faithful. They shall provide a true and fair view of the result of the management, assets and financial situation of the said public administrations”.*
- France is in line with the strengthening approach of the requirements for budgetary frameworks undertaken by the Council of the European Union (Council Directive 2011/85/UE). This Council directive stipulates that the production of high-quality statistics relies on “*complete and reliable public accounting practices*".

Quality objective for public entities accounts

The decree adopted on 7th November 2012 related to fiscal and accounting public management clarifies the implementation provisions of the Constitution.

- The **decree adopted on 7th November 2012, the "GBCP decree",** related on fiscal and accounting public management underlines the quality objective for financial statements.
- Article 56 of the decree stipulates that **accounting standards** that apply to public entities are the same as those for business, except for specific activities of those entities.

Quality and certification of central government accounts

- Central government financial statements are based on **accrual basis**, and prepared on the same basis as those for business except when differences are warranted by the specific nature of its activity (article 30 of the constitutional bylaw, the “LOLF”, and article 56 of GBCP decree).

- Central government accounts shall be lawful and faithful. They shall provide a true and fair view of the result of the management, assets and financial situation (article 27 of the LOLF).

- Article 31 of the LOLF stipulates that **public accountants** of the French General Public Finance Directorate (DGFiP) shall ensure the quality of the central government accounts.

Central government accounts Key data (from central government accounts year ended 31 December 2011)

€ 928 billion

Total assets

€ 1763 billion

Total liabilities

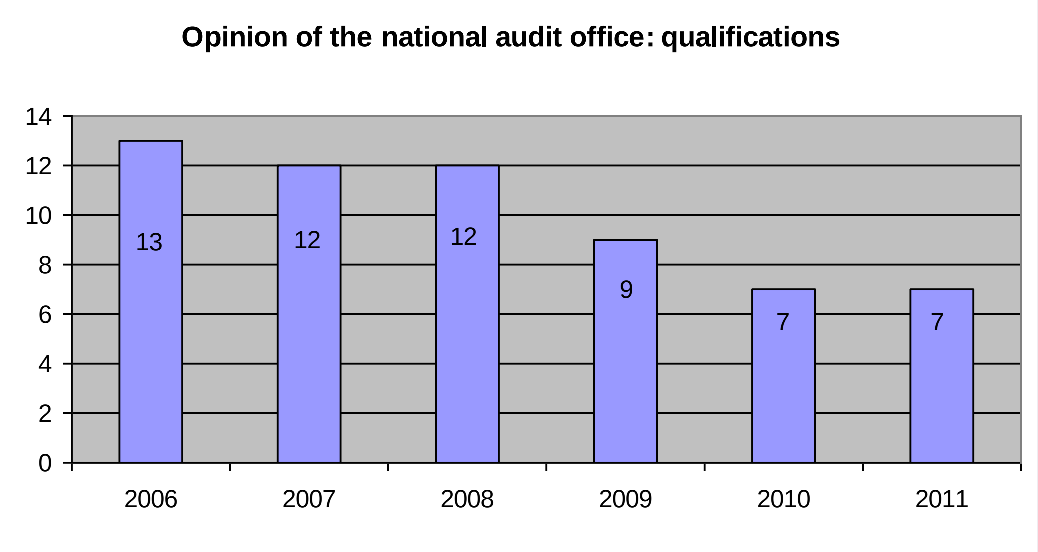
€ -835 billion

Net assets

Quality and certification of central government accounts

- Central government financial statements are **certified by the National Audit Office “Cour des comptes”** since 2006 (article 58-2 of the LOLF). The certification is a **lever to enhance the accounts quality**.

- Since the preparation of the first financial statements (year ended 31 December 2006), improvements have been made, with a number of qualifications that has been nearly halved (from 13 qualifications to 7 qualifications).



Directions in other public sector entities

In accordance with the Constitution (article 47-2), the quality objective of accounts has been extended to the whole public sector, and in particular:

- **More than 200 establishments have their accounts certified with or without qualifications. Especially, Universities accounts** have been certified since 2009. There is still room for progress, to enhance universities accounts quality especially the accounting of intangible assets and social liabilities.

- The law "hospital, patients, health, territory" (2009) stipulates that public health entities **(EPS)** shall be audited by the National Audit Office (for the main one) and by statutory auditors (for the others) by the year 2014.

A harmonisation approach for public sector accounting standards

- Within the quality accounts objective, **a harmonisation approach for the whole public sector has been launched** (Central government and its entities, local authorities and social security). The Public Accounting Standard Council has been created.

- The aim is to ensure the quality and the harmonisation of the public accounting standards for the production of high-quality financial reporting for the Parliament, the management of public finances and the production of statistics data.

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The current accounting practices: valuation of assets and liabilities in the balance sheet

- The **preferred method** to value assets and liabilities is the cost method. Specialised assets are valued using the depreciated replacement cost approach. These assets are considered to be specific because they have no equivalent in the private sector (such as roads and prisons). As r**eal estate assets are not specialised, they are recognised at market value.**

- **Heritage assets** are measured **at cost** and no depreciation or impairment losses are booked after their initial recognition. **Where the cost is unknown, they are measured at symbolic value**.

- **Specific rules apply to assets related to sovereign powers** such as the power to authorise the occupancy or the use of specific items under central government control.
  - **Hence, these specific assets are recognised upon the conclusion of a transaction that reveals the future economic benefits attributed to the central government. For example, radio frequencies attributed to telecommunication operators by central government which are estimated on the discounted cash flows approach.**

The current accounting practices:
Intervention expenses and social benefits

Intervention expenses are payments, that the central government makes as part of its economic and social regulation role.

- **Intervention expenses**, mainly multiyear, are incurred **in the course of the ordinary activity of public entities**.
- The French accounting approach for intervention expenses is based on **executory contracts accounting,** (alternative model proposed by IPSASB in its consultation paper on social benefits issued in 2008):
  - **Unless and until the beneficiary's rights are not established, transfers obligations are considered as commitments and information is provided in the notes of the central government financial statements.**
  - **The beneficiary's rights are established where the beneficiary fulfils all eligibility criteria.**
  - **Therefore, <u>the fulfilment of the criteria</u> by the beneficiary is the <u>triggering event that leads to the recognition of a liability</u>.**

The current accounting practices: Service concession arrangements

The accounting approach adopted for service concession assets is compliant with IPSAS 32 requirements.

- Service concession assets that qualify for recognition are measured at cost.
- The corresponding entry of the service concession assets is a **Financial debt**, except when a component of the cost is directly assumed by the users of the service concession asset**.** In such a case, the corresponding entry to the cost directly assumed by the users of the service concession asset is recognised directly in net assets/equity. Indeed, in such a case the service concession arrangement is considered as an exchange transaction: the operator is compensated for its construction or upgrade services by the granting of the right to charge the user of the service concession asset.
- **Information is provided in the notes to the central government financial statements** about the main characteristics of service concession arrangements for which underlying assets do not qualify for recognition (control criteria not fulfilled).

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Accounting issues: civil and military servants ’ pensions

Civil and military servants ’ pensions are paid by central government (and funded by taxes).

- According to the current accounting rules apply to central government, **Civil and military servants ’ pensions are considered as commitments and information about these commitments is provided in the notes to the central government financial statements**. Pensions’ commitments are measured using the projected unit credit method.
- Besides, **information is provided in the notes** to the central government statements about the amount of the actualised funding needed for **Civil and military servants ’ pensions plan**. This amount corresponds to the actualised assessment deficits servants ’ pension plans.
- The information highlights our desire to promote high-transparency in the financial reporting.

Servants’ pensions accounting lead to ask ourselves about the nature of the plan assets and especially the sovereign power to tax. Besides, the pay as you go nature of the plan must be taken into account.

Future accounting issues:
the consolidation of State accounts

The consolidation of Central government accounts: multiple issues

- Central government currently discloses centralised accounts that means a Central government account that includes those of the different ministries. Yet, there is **no consolidated financial statements.** Nevertheless, in our centralised account, a clear distinction is made between financial assets controlled by the Central government (valued at equity value) and those that are not controlled (valued at cost).

Key issues to be solved:

- regarding the scope definition, may the concept of **control** be sufficient in itself or does it need to be enlarged with additional criteria, such as contribution to a public policy,or mainly funded by public entities or not?
- The **methods of integration** of the consolidated entities accounts and the **steps** to succeed in.

Conclusions

The dynamics of the accounting reform in France

- The constitutional bylaw impulsed a strong dynamics of the **accounting reform** for the French State.
- A plan of **accounting quality** (internal control and audit) has been displayed and is strengthened.
- The Central government accounts migrated at the end of 2012 in a new **ERP** (inspired from SAP), based on best practices.
- The issue of public accounts quality has been spread **in the whole public sector**. It leans on the strong pillars of internal control and audit.
- The aim is to follow an **harmonised approach** when managing public accounts.