

**CERTIFICATION OF THE CENTRAL
GOVERNMENT'S ACCOUNTS**

FISCAL YEAR 2006

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Introduction

By approving the constitutional bylaw on budget acts (LOLF), sometimes referred to as the new “financial constitution of the Government”, Parliament reinforced and expanded the constitutional role played by the Court of Accounts in assisting Parliament and the Government in overseeing enforcement of the budget acts.

The LOLF, which took full effect on 1 January 2006, calls for the Court of Accounts to submit three documents to Parliament starting in 2007.

The first, filed in conjunction with the budget review act, is the report referred to in Article 58-4 of the LOLF concerning enforcement of the previous fiscal year’s budget acts (*Report on the results and budget management*). It analyses budget implementation, first of all from the general standpoint of “outturn and the associated accounts”, including in particular the three results stipulated or approved by the budget review act (Article 37 of the LOLF): the budget outturn (budget accounts), the final sum of cash resources and charges (cash flow statement) and the accounting result (general accounting accounts). It also examines the utilisation of appropriations by mission and by programme in order to now assess performance.

The second, which is presented here and is also attached to the budget review bill, has changed somewhat in relation to the report on the accounts of the three previous fiscal years. For the first time, pursuant to Article 58-5 of the LOLF, it contains “*certification that the central Government’s accounts are lawful, faithful and present a true and fair view, along with a summary of the audits conducted*”.

The third document is the preliminary report used for the budget policy debate (*Report on the public finance situation and outlook*), as provided by Article 58-3 of the LOLF. This report, filed during the last quarter of the ordinary session along with the report to the Government on changes in the national economy and on public finance policies, discusses the previous fiscal year’s outturn through an overall analysis of public finances (central Government and related agencies, social security administrations and local Governments) and by placing them in a medium-term perspective.

Certification of the accounts is defined as the written, reasoned opinion expressed by an independent body on the compliance of the financial statements of an entity, in all its significant aspects, with a given set of accounting rules.

It originated and was developed in the last century at companies where auditors were commissioned to attest to the quality of the accounts prepared by these companies' management. Today, it is mandatory for many public and private legal persons and is especially important for companies that offer their securities to the public.

Based on this model, adapted to the specific nature of the Government, the authors of the constitutional bylaw incorporated certification of the central Government's accounts into general budget and accounting reform which stipulated, among other things, that the central Government's general accounting must now be maintained in a format and according to rules that are as close as possible to those applicable to companies (Article 30 of the LOLF).

In so doing, France has become a player in an international movement. Several other OECD countries have, in fact, opted in recent years to update the presentation of their public accounts and to have them certified by their supreme audit institution.

As set out in Article 27 of the constitutional bylaw, the central Government maintains two types of accounting, namely budget accounting which, in accordance with Article 8, reflects the management and utilisation of commitment authorisations and cash-limit appropriations, as well as the recognition of budget revenues and expenditures, and general accounting, which encompasses all its transactions, including those affecting its assets, such as its tangible and intangible assets, inventories, financial assets, financial and non-financial debt, provisions, receivables and off-balance sheet commitments. These two types of accounting are very interlinked to ensure the consistency of all the central Government's accounts. However, only general accounting is currently governed by a complete, formalised regulatory framework, which includes the "Government's accounting standards" that were approved, pursuant to Article 27 of the constitutional bylaw, after receiving the opinion of the public accounting standards committee, a committee made up of qualified experts in the public and private sectors.

The certification currently issued by the Court of Accounts therefore concerns the financial statements taken from general accounting, which form the *Government's general account*, which is itself attached to the budget review bill (Article 54-7 of the constitutional bylaw) and includes the trial balance, the income statement, the balance sheet and its

appendices, and a valuation of the off-balance sheet commitments. Consequently, of the three results stipulated or approved by the budget review act pursuant to Article 37 of the constitutional bylaw, certification pertains only to the accounting result referred to in section III of the article, and not to the budget outturn indicated in section I or the cash result mentioned in section II, which is understood as the final sum of cash resources and charges shown on the cash flow statement.

The connection between general accounting and budget accounting is, for the same reasons, also outside the present scope of certification. Moreover, the accounts related to the 2006 budget outturn were provided to the Court with difficulty and too late for a detailed verification of this connection to be completed in the timeframe allowed by the constitutional bylaw.

The aim of the certification carried out by the Court of Accounts is not to interpret the financial statements that form the central Government's *general account*, but rather to determine whether they comply with the applicable rules, including in particular the principles of regularity, truthfulness and fairness set out in Article 27 of the LOLF, and the Government's accounting standards.

Given that these rules are very recent and quite different from those that existed prior to the LOLF, the first certification must be placed in its proper context. Implementation of accounting reform is, indeed, a difficult process for the administrations, which have already made considerable efforts. Thus, most of the problems noted by the Court stem from the incompleteness of this reform and the time needed to implement an appropriate computer-based financial system.

The information provided by the Government in the appendix to the accounts to make up for certain gaps in the inventories or information systems, as well as the commitments that it agreed to make, demonstrates its concern for transparency and correct information and was therefore taken fully into account by the Court in its opinion.

In performing its new certification function, the Court refers to the International Standards on Auditing (ISA) defined by the International Federation of Accountants (IFAC). These standards, developed for the private sector, stipulate that certain adjustments may be necessary for the public sector. In point of fact, several of these standards do not apply to certification of the Government's accounts since, unlike companies, the Government incurs no risk related to continuity of operation; other standards cannot be applied in the first few years given the absence of pro forma accounts used to reconstruct previous fiscal years according to the new accounting standards.

In addition, the Court has anticipated procedural provisions which, according to the ministries in question, should be added very soon to the Code of Financial Jurisdictions and will improve the way in which information is exchanged with the administration.

In accordance with the aforementioned international audit standards, an auditor may not issue an unqualified opinion if he/she has identified significant problems, whether quantitative or qualitative. These problems are of two types:

- *disagreements* with the preparer of the accounts regarding adjustments, reclassifications or changes to the appendix or quantifiable or non-quantifiable differences regarding methods;
- *limitations* on the scope of the audits, whether said limitations are due to circumstances or insufficient supporting data or result from the inability to assess the regularity, truthfulness and fairness of the accounts.

The Court also makes reference to “uncertainties” encountered in the audit of the accounts. These uncertainties result from the Court’s inability to confirm a particular element of the accounts because of limitations or non-quantifiable anomalies, whether or not they were the subject of an actual “disagreement—in the common sense of the term—with the administration.

It is the seriousness and the possible combination of the disagreements, limitations and uncertainties that lead the Court to choose between qualified opinion, disclaimer of opinion and adverse opinion.

I - The Court's Opinion on the central Government's 2006 Accounts

I.1. As part of its role of assisting the Government and Parliament in overseeing enforcement of the budget acts, the Court must, pursuant to Article 58-5 of the amended constitutional bylaw of 1 August 2001 on budget acts, certify the regularity, truthfulness and fairness of the central Government's 2006 accounts.

I.2. In the absence of a complete, formalised budget accounting framework, the Court deemed that certification of the central Government's accounts pertained only to the Government's 2006 general account, which was signed by the Minister of the Economy, Finance and Industry and the Minister responsible for the budget on 7 May 2007 and was attached to the 2006 budget review bill.

I.3. Pursuant to Article 54-7 of the aforementioned constitutional bylaw, the central Government's general account includes, as defined by standard 1 of the central Government's accounting standards, the trial balance, the income statement (made up of the schedule of net expenses, the schedule of net sovereign revenues and the balance on transactions for the fiscal year), the balance sheet (or statement of net position) and its appendices, including in particular a valuation of the government's off-balance sheet commitments, as well as the cash flow statement.

I.4. The central Government's accounting entity includes all Government services, establishments or institutions that do not have the status of a corporate entity, whether or not they receive appropriations from the national budget. All their operations must be included in the central Government's general accounting according to the rules applicable thereto.

I.5. The central Government's general account was prepared, for the first time and pursuant to Article 30 of the aforementioned constitutional bylaw, on the basis of the accounting rules and principles applicable to companies, subject to the specific nature of the Government. These rules and principles were set out in the Government's accounting standards approved by the order of 21 May 2004 and amended by the order of 17 April 2007, after receiving the opinion of the Public Accounting Standards Committee. Application of these new accounting standards has required significant restatements of the opening balance sheet at 1 January 2006 taken from the 2005 General Account of the Finance Administration, which was prepared according to the old standards. This major change also required that authorising officers, their administrative departments and public accountants make considerable efforts to re-develop, enhance and

ensure the reliability of the closing procedures based on the new accounting rules in order to prepare the 2006 opening balance sheet.

1 - Opinion on the central Government's general account

I.6. The Court audited the financial statements that make up the central Government's general account. These audits were conducted based on the international accounting standards issued by the International Federation of Accountants (IFAC) and in accordance with the Code of Financial Jurisdictions, which requires and organises adherence to the adversarial principle and the principle of collegiality. The aim of the audits was to collect evidence regarding the accounts and the financial information provided in the appendix in order to obtain reasonable assurance that the financial statements did not contain any significant misstatements. Since the administration had been authorised, through a decision handed down by the standards committee on 11 December 2006 amending accounting standard 1 regarding financial statements, not to reconstruct *pro forma* accounts for the first two of the Government's general accounts, the Court was unable to compare the 2006 accounts with those of previous years, as required by international audit standards.

I.7. In accordance with the provisions of Article 58-5 of the aforementioned constitutional bylaw, the Court gives an account of the audits conducted in this report (see below, III).

I.8. After completing its audits, the Court believes that it collected enough evidence to justify its opinion on the fiscal year 2006 accounts.

a) Limitations

I.9. The Court notes, first of all, that it encountered several limitations in the scope of its audits, some general and others specific.

I.10. The *general limitations* pertain firstly to the Government's financial reporting systems, which are not fully adapted to the new general accounting, do not allow the accounting standards to be applied in their entirety, and do not systematically provide for an audit trail by which the financial statements can be traced back to the original accounting transactions and vice versa. Secondly, they are linked to inadequacies in the administration's internal control and audit systems, on which the Court could only partially rely. These current inadequacies also made it impossible to sufficiently reduce the risk of significant errors in the accounts.

I.11. The Court also came up against several less serious *specific limitations*:

- it was unable to obtain, within the timeframes consistent with the certification assignment, the 2006 accounts of some of the central Government's operators which it needs to verify that the central Government's interests are correctly reported;
- it was unable to analyse the identification and valuation of many of the fixed assets and inventories in service at the armed forces given the lack of an audit trail in the logistics information systems;
- with regard to taxes, it was unable to assess the justification of corporate tax and value added tax credits and reductions because of functional limitations in the tax administration's information systems;
- finally, it was unable to audit the accounts of the public authorities (Parliament, Office of the President of the Republic, Constitutional Council, High Court of Justice, etc.), which are outside its area of responsibility, and was unable to refer to audits of third party entities designated by each of these authorities for the purpose of conducting an independent audit.

b) Disagreements and uncertainties

I.12. The Court also noted several disagreements on the accounting methods used or the way in which they were applied, as well as uncertainties regarding the financial statements.

I.13. The identification of the Defence Ministry's assets, valued at 184 billion euros in the 2006 accounts, is incomplete. Several assets were excluded from the scope of valuation (equipment used in foreign operations or located overseas, satellites, nuclear missiles, etc.). In addition, tangible and intangible assets related to weaponry, as well as inventories, were valued according to methods that do not comply with the central Government's accounting standards. These anomalies resulted in an undervaluation of the central Government's assets, which could not be accurately estimated.

I.14. The value of the central Government's interests in its operators, valued at 53.7 billion euros in the 2006 accounts, could not be verified by the Court since many of the operators' accounts were missing. In light of the limitations described above, the financial impact of this missing information could not be estimated.

I.15. Some of the central Government's own tangible assets (assets provided under a concession agreement, public-private partnerships or similar projects) are not included in the 2006 accounts. Moreover, the central Government's intangible assets, which consist mainly of rights held by it as a result of occupation or exploitation of the public domain, were not valued on the fiscal year 2006 balance sheet. The financial impact of this omission on the central Government's accounts cannot be estimated.

I.16. The interest rate swap agreements for debt management referred to in sections 6.2.2. and 6.2.4. of the appendix to the central Government's 2006 general account do not meet the conditions set out in the Government's accounting standard 11 to qualify as macro-hedging instruments.

I.17. The account of *Coface* projects (*Compagnie française d'assurance du commerce extérieur*) carried out with Government guarantee, which at 31 December 2005 totalled 17 billion euros on the balance sheet, was not included in the central Government's accounts, despite the fact that the central Government has effective control over management of the procedures and makes a deduction each year from the cash balance in favour of the general budget.

I.18. The savings funds section of the accounts of the *Caisse des Dépôts et Consignations* was excluded from the calculation of the Government's interest in this public entity, which resulted in a 7.1 billion euro decrease in the value of entities not controlled by the Government shown on the assets side of its balance sheet.

I.19. The method used to value the national road system, which resulted in valuing the existing national roads at 104.3 billion euros in the 2006 accounts, contains several approximations and omissions. Moreover, the inventory of roads under construction, valued at 9.5 billion euros, is unreliable.

I.20. The value of the Government's real estate holdings, estimated at 49.1 billion euros at 31 December 2006, is uncertain because of the procedures used to identify and inventory buildings and flaws in the EDP applications. There is evidence of anomalies in the valuation of several assets as well as assets that were not identified, although their overall impact on the accounts could not be accurately determined.

I.21. The valuation of claims and acquired rights which taxpayers hold against the Treasury and which they can assert from one fiscal year to the next could not be verified by the Court since, for claims, the valuation included only some of the value added tax credits and, for acquired rights, the valuation did not take into account losses carried forward in connection with corporate tax, even though these losses have a direct impact on future tax revenues. The impact of these omissions on the 2006 accounts could not be estimated.

I.22. The Government's intervention liabilities were not identified in their entirety. Moreover, not all those that were valued could be verified by the Court because of missing information. This resulted in an undervaluation of the Government's liabilities which cannot be accurately determined but is estimated at several billion euros.

I.23. Although the public authorities do not have the status of a corporate entity separate from that of the Government, only a very small portion of their accounts are included in the Government's accounts. In light of the limitations described above, the financial impact on the Government's accounts could not be estimated.

c) Impact on the Court's opinion

I.24. The Court believes that these limitations, uncertainties and disagreements must be considered in light of the scope, diversity and complexity of the operations that impact the central Government's accounts, on the one hand, and the considerable efforts made by everyone at the administration to implement the accounting reform without invoking the EDP escape clause, on the other hand. It also notes that the central Government's general account, accompanied by its appendices, which form an integral part thereof, and by the presentation report, informs the reader of the assumptions underlying the estimates used and of the reasons why the specific accounting choices are justified.

I.25. Moreover, the Court takes note of the specific, scheduled commitments which the responsible authorities have made in response to the problems encountered. Most of these commitments are described in the appendix to the central Government's general account and are therefore available to the public. The Court will ensure that all these commitments have been met when it audits the accounts of subsequent fiscal years.

I.26. In view of the observations made in paragraphs I.7 to I.21, the Court cannot certify, without qualification, that, from the standpoint of the accounting rules and principles applicable to it, the general account of the central Government, in all its significant aspects, is regular, truthful and fairly presents the central Government's financial position and assets at 31 December 2006. However, in view of the work already completed by the administration to prepare the central Government's first general account without the benefit of a transition period, the detailed information contained in this document and the commitments made to eliminate the uncertainties in the short or medium term and reduce the limitations and disagreements that still exist, the Court certifies the central Government's general account at 31 December 2006 subject to 13 substantial reservations described in the preceding paragraphs and explained in detail in part II below.

2 - Specific audits and information

I.27. The Court also audited the information provided in the central Government's presentation report and general account. The remarks and suggestions for changes that it made were taken into account, and the Court has no further comment regarding the truthfulness of the information and its consistency with the central Government's general account.

II - Qualifications

II.1. The timetable for preparing the accounts is established by the LOLF which, in Article 28, upheld the existence of a supplementary period subsequent to the calendar year that may not exceed 20 days¹ and which, in Article 46, set 1 June as the date for filing the budget review bill to which the central Government's general account and the certification document are attached. This timetable is mandatory for both the administration and the Court.

II.2. First of all, it should be pointed out that, given the current state of the information systems, the timetable for preparing the budget review bill, as it was implemented for the 2006 accounts, is too short for both the authorising officers, the accountants and the Court. Indeed, the controls that the authorising officers and accountants were able to carry out did not allow the preparer of the accounts to ensure the reliability of the financial statements under sufficient security conditions, including in particular the closing procedures used to prepare them. For his part, the Court did not have enough time to perform all the checks needed to complete his assignment at an entity as large as the central Government. Although the Court was able to conduct interim audits in the second half of 2006, between the date on which the first interim trial balance was sent to the Court and the date set by the administration to receive the last requests for corrections in order to finalize the accounts, the Court's auditors had less than one month to conduct their final audits, which entail complex procedures involving the receipt and processing of accounting data and the provision of supporting documents produced by all the central Government's departments.

II.3. In this context, ways and means must be found to ease time constraints so that public accountants can ensure the accuracy of the accounting records and comply with the procedures set out in Article 31 of the LOLF, and the Court can collect all the evidence needed to form an opinion on the accounts. Several avenues should be explored within the framework established by the authors of the constitutional bylaw: reducing the supplementary period, earlier close of inventory, using interim closings to reduce year-end inventory transactions and examine complex transactions, and speeding up projects aimed at transforming supporting documents into electronic format.

¹ This period was 19 days for fiscal year 2006.

II.4. The Finance Ministry has agreed to move in the direction of reducing the length of the supplementary period, to study the feasibility of interim closings for certain types of transactions, to shorten the times for producing the accounts by relying more systematically on estimates, and to improve the closing documents made available to the Court. These improvements will be finalized based on an assessment of the 2006 year-end closing which will be shared with the Court. In this regard, the Court is ready to present, at the start of this process, its audit strategy regarding the timing of its interim audits and final audits.

II.5. The following explanations refer to the audit of the central Government's year-end accounts as it was conducted under the conditions outlined above and account for each of the qualifications of the opinion expressed in part I.

1 - The central Government's financial reporting systems

II.6. The decision in May 2004, 20 months prior to the effective date of the LOLF, to abandon *Accord 2*, the large-scale ERP project that would have allowed all the provisions of the LOLF to be implemented, resulted in the use of a temporary solution, called "*Palier LOLF*", the main objective of which was to present and enforce the budget acts based on budget categories and a chart of accounts that comply with the LOLF.

II.7. In this context, the preparer of the accounts did not attempt to invoke the "*EDP escape clause*" mentioned in the introductory section of the accounting standards adopted by the ministerial order of 21 May 2004². This positive stance is consistent with the position of the Court, which believes that failure to implement the new budget and accounting systems cannot, in itself, cause the full application of the central Government's accounting standards to the 2006 financial statements to be postponed.

² "Application [of the] standards is tied to the implementation of the Government's new budgetary and accounting information systems. It may be fully realised only once these systems are completely implemented".

a) Risks related to current operation of the information systems

II.8. The EDP audit of *Palier LOLF* conducted by the Court last fall with the help of an audit firm revealed many positive points that make computer-based internal control a reliable tool for certifying the accounts. Specific examples are the various application controls that provide a high degree of assurance regarding the thoroughness, the actual existence and the correct valuation of the expenditures entered in the central and decentralised expenditure applications (*Accord LOLF* and *NDL*), the automatic anomaly recycling functions and a significant improvement in the audit trail with a link between the source document and the expenditure event.

II.9. However, this audit also showed how the applications' technical limitations threaten the reliability of the central Government's general account:

- Production of the principal accounting statements is not entirely secure. These statements, for which the data is downloaded from large systems, are finalised using office automation tools which imply the risk of errors in the downloaded data and the data processing, and ensure neither adequate traceability nor any supervision of the changes made.
- The EDP controls for matching operating and intervention income and expenses to the fiscal year are limited in both expenditure applications. The controls for correctly matching them to the fiscal year are performed by an identification procedure outside the accounting system that is based on statements by the administrations and entails definite risks (see below, § II.11, p.15).
- The various financial applications, which were not designed to process general accounting data and which, at best, interface with *Palier LOLF*, pose the ongoing risk that an entry in a large amount may not be recorded and make it difficult to coordinate the EDP controls throughout the expenditure chain.
- The *Accord LOLF* and *NDC* applications are not capable of automatically handling discrepancies between data entered by the accountant and data entered by the authorising officer.

- The *India LOLF* information centre was largely ineffective until the spring of 2007. The problems of application availability, delays in delivering the various functions, difficulties encountered by the administrative departments in using the data given the lack of a data dictionary, and the absence of EDP controls to detect corrupt data revealed a serious problem in project management. The ministries were forced to use business applications or to develop solutions based on the use of spreadsheet programs. Because the budget outturn data was not made available in a timely fashion, the Court was unable to perform analytical reviews aimed at detecting inconsistencies between the revenue, expenditure and cash transaction data shown in budget accounting and the data shown in general accounting.
- The details of the source documents in the *TCC* centralised application are available for only two months and these documents could not be consulted in *India LOLF* at the time of the final audits.
- There is no inter-ministerial administration of the *NDL* and *India LOLF* applications, despite the fact that the number of users exceeds 25,000. Improvements need to be made to management of access rights to the applications.
- Finally, there is no standardised data archiving policy for the various applications that make up *Palier LOLF*.

II.10. Audits conducted by the Court, with or without the help of audit firms, of several key EDP remittance applications revealed similar strong points and limitations:

- With regard to the *MÉDOC* business tax management application, there are many controls that provide effective oversight of management actions and scheduled procedures related to tax collection. However, complex, risky restatements are needed to make the adjusting entries, which does not ensure their completeness or correct valuation. These risks are proven for the calculation of accounts receivable and accrued VAT expenses and for future reimbursements by the Treasury of corporate tax credits, which were undervalued in the accounts (see below, § II.125, p. 42).

- For the *PEZ* pensions payment application, an internal control system and oversight were recently put in place; however, the organisation of control points and documentation of the procedures are still inadequate. Moreover, the reports provided to the agents do not enable them to conduct effective audits.
- For the *STGPE* and *TGPE* applications, which are used to inventory and value real estate holdings, data entry help and successive validations by those involved (administrator, accountant, appraiser) provide some assurance, but do not offset the inadequacies of the IT control environment, the lack of an interface with the expenditure and correction logging applications, and the virtual non-existence of consistency checks and suitable accounting reports.

b) Audit trail limitations

II.11. Considerable efforts were made by the administration to implement an audit trail which links the balances on the trial balance to the original individual transactions and vice versa. However, because of the way in which several systems are configured, it is not possible to follow such an audit trail through, within the time allotted to complete certification.

II.12. This is true of the *Orchidée* application, which is used to identify income and expenses to be matched to the fiscal year. Indeed, there is no traceability of accounting entries between the data contained in this application and the data entered manually into *CGL*, the central Government's general accounting application. This poses the risk of non-posting or double posting when general accounting data is integrated into the *CGL* application by the Treasury departments. Furthermore, with regard to transfer charges, the ability to select accounting transactions by intervention scheme has not been implemented, since the tool does not allow a summary analysis of programmes and actions by administrator. The computer applications that would have been needed to implement this type of analysis could not be developed in the allotted timeframes. However, the administration has agreed to incorporate the Court's recommendations into a new version of the *Orchidée* application.

II.13. The EDP audits of the *PEZ* application and the Court's audits revealed that, although there was an audit trail within the application, its complexity raised doubt about the reliability of the pension expense entries and limited the Court's ability to conduct its audits. Moreover, the application could in no way function as a pensioner sub-ledger accounting system.

II.14. Use of the audit trail of accounting entries from *MÉDOC* (see above, § II.6, p. 12) requires a disproportionate amount of resources compared to the way in which these reconciliations are usually performed in certification audits and is therefore a limitation to the Court's audits.

c) Proposed upgrades of the information systems

II.15. Three major upgrades of the information systems are essential to improving the accrual-based accounting: they concern *Chorus*, *Copernic* and *Opérateur national de la paye (ONP – national payroll operator)*.

II.16. The *Chorus* project is underway. The aim of this project is to combine into an ERP all the functionality of the inter-ministerial expenditure and non-tax revenue management and accounting applications and the ministerial financial management applications. If the provisional timetable for implementing the information system is adhered to, the first financial statements based on this system should pertain to fiscal year 2011 or, more likely, 2012.

II.17. The main purpose of the *Copernic* program, which will not be completed until 2010 or 2011, is to create a simplified fiscal account. A top priority for proper accounting is the implementation by the year 2010 of the RSP application, which will allow for the collection of all taxes in two stages. In addition to expected productivity gains and data securement, the *Copernic* program must be capable of ensuring the entry and storage of all data needed for a thorough identification and correct valuation of taxpayer claims and debts and for income and expenses to be correctly matched to the fiscal year. It must therefore be able to function as a sub-ledger accounting system, even if it sends only event summaries to *Chorus*, and provide a user-friendly backward and forward audit trail.

II.18. The *Opérateur national de la paye* application, which is scheduled to be implemented between 2010 and 2014, is a new information system designed to automate and improve the reliability of the payroll process for 2.5 million civil servants. This system must be connected to the human resources information systems of the various managing ministries in order to greatly improve agents' administrative data and ensure that income and expenses are correctly matched to the fiscal year and that the Court has access to a user-friendly audit trail.

d) A substantial limitation

II.19. All in all, the risks specific to *Palier LOLF*, the fragmentation of the other information systems and the inadequacies or difficulties noted in the audit trail of several applications constitute, for the Court, a substantial limitation to the scope of his/her work, including in terms of personnel expenses, which calls for corrective measures, the effects of which will be felt in the medium term or starting in fiscal year 2007, as the case may be.

II.20. The Finance Ministry has agreed to take the Court's requirements into account when developing the final *Chorus* system, the *Copernic* system and the *Opérateur national de la paye* project.

II.21. Until these information systems are implemented, it has also agreed, based on a cost/benefit analysis and on the technical constraints inherent to each operating system, to make significant improvements to the audit trails in 2007 and to first consult with the Court on any applications that are likely to affect him/her. These improvements mainly pertain to financial statement production, *STGPE*, *Orchidée*, *PEZ*, *MÉDOC* and the *RSP* tax collection application.

2 - Internal control and audit system

a) Internal control

II.22. In 2006, the inadequacies of the IT environment were only partially remedied by the internal control system that is currently being implemented.

II.23. From an accounting standpoint, internal control is a set of formalised, ongoing measures approved by management and implemented by managers at all levels to control the way in which their activities are carried out in order to provide reasonable assurance of the regularity, truthfulness and fairness of the accounts. Its effect must be to reduce the risk of significant errors or omissions in the accounts.

II.24. Considerable efforts were made by the administration in 2006 and progress was reported thanks to the inter-ministerial internal accounting control standards developed by the central Government's accounting office of the Public Accounting Directorate (DGCP) and to the consulting and support provided by this office in the area of accounting reform. The risks to which the accounts are exposed were identified and prioritised at each ministry and ministerial action plans aimed at minimising these risks were adopted in the second half of 2006.

II.25. Internal control, though generally well thought-out and backed by the existing organisation of financial and accounting functions, was still not effective enough in fiscal year 2006 at a large number of central and decentralised offices involved in the production of the central Government's financial and accounting information.

II.26. The Court's review of the internal accounting control systems revealed that the progress of the development or implementation work varied greatly depending on the ministries and on the accounting processes.

II.27. Certain ministries have made more progress than others in setting up oversight structures. This is true of the Ministry of National Education, Higher Education and Research and the Ministry of the Interior and Land Planning.

II.28. The results of the Ministry of the Economy, Finance and Industry are mixed. The Public Accounting Directorate, both at the central level and in its network, now has an internal control system that, generally speaking, is effective. But efforts began later at other ministry departments that play an important role in the production of certain accounting information and which, at the Court's request, were dealing with anti-fraud action plans.

II.29. In general, because of the time needed to adopt them, the ministerial action plans did not have their desired effect in fiscal year 2006. Moreover, the control activities already in place, some of which pre-date the LOLF, are usually not formalised, which makes it impossible for the Court to verify their effectiveness. In addition, public accountants, and particularly budgetary auditors and ministerial accountants in charge of payments, who do not have sufficient resources to fulfil their accounting

responsibilities, were unable to perform all the necessary controls on the accounts for which they are responsible or ensure accounting quality.

II.30. All in all, and despite the progress made in 2006, the Court is of the opinion that internal control throughout the administration was not effective enough to reduce the risks of significant errors in the accounts to a reasonable level, which constitutes a limitation to the scope of the certification work.

b) Internal audit

II.31. In order for internal control to be effective, it needs to be supported by internal audits, an activity that must be independent of the operational structures.

II.32. One positive element is the role played by the *Mission d'audit, d'évaluation et de contrôle* (MAEC – audit, evaluation and control mission) of the Public Accounting Directorate, with which, in accordance with the international audit standards, the Court has formalised a collaboration between internal audit and external audit. At the other departments that are part of the Ministry of the Economy, Finance and Industry, the audit units have begun to incorporate the aspect of accounting quality as provided by the LOLF requirements and have conducted initial partnership audits with the MAEC.

II.33. At the other ministries, the Court has noted the absence of structured accounting and financial internal audit units. It is true that periodic audits have been conducted. But these audits, which are described as “partnership” audits because they are carried out jointly by the MAEC and the audit units of the respective ministries, have been few in number. Moreover, they do not satisfy the need to create a permanent internal audit function at these administrations.

II.34. In addition, the organisation of internal audit at the inter-ministerial level does not ensure its strict independence vis-à-vis the account production chain.

II.35. Since it cannot yet rely on internal audit systems provided by the administration, with the exception of the MAEC, the Court notes a limitation to its own audits in connection with certification.

3 - The Defence Ministry's assets

II.36. At 31 December 2006, the gross value of the Defence Ministry's assets was 184 billion euros³, which represents more than one-fourth of all the Government's assets.

II.37. If we exclude real estate holdings, which account for only 10% of total assets, the Defence Ministry's fixed assets and inventories are specific assets whose identification and valuation represented a new and difficult task. The book inventories taken by all the Defence Ministry's departments represented a considerable amount of work which should be underscored. Despite the wide diversity of the materials and equipment (military, technical, non-military and medical equipment, food supplies, fuel, replacement parts, etc.), their broad geographic distribution and the large number of internal holders, the vast majority of those responsible for book inventories produced inventory files by the specified deadlines and in the required formats.

II.38. However, the information provided in the central Government's general account gives only a rough estimate of some of the Defence Ministry's significant assets. Indeed, this new task of identifying and valuing assets shows many inconsistencies with the accounting standards in terms of completeness of the inventory, valuation of the assets, application of the accounting standards and recognition of year-end and control transactions.

a) Scope of the tangible asset and inventory identification process

II.39. Several categories of assets are excluded from the opening and closing balance sheets because they are completely or partly missing from the information systems. Indeed, the armed forces have computer tools developed long ago to provide physical and logistical tracking of assets which meet strict requirements in terms of material management but do not comply with the accounting obligations. For example, some assets are not identified in the applications because they do not have a NATO code, which serves as a basis for the inventories of the logistics information systems. Other assets have a zero or near zero value in the applications. Some overseas equipment, used in foreign operations, sent to formations or placed aboard ships, as well as certain practice

³ This figure is provided subject to the reservations and limitations described below. It includes real estate holdings (18 billion euros), intangible assets (34 billion euros), other tangible assets (100 billion euros) and inventories (33 billion euros).

ammunition and stocks of replacement parts and equipment made available to manufacturers are not identified.

II.40. Other assets are also excluded, such as certain military satellites and nuclear missiles in service.

II.41. The impact on the accounts cannot be accurately determined due to a lack of financial information, but is estimated at several billion euros.

II.42. The appendix to the central Government's general account mentions these exclusions (see Note 2, section 2.1.2.).

b) Valuation of assets

II.43. *Tangible assets* corresponding to weaponry are shown on the central Government's balance sheet at a gross value of 82 billion euros, depreciated at a rate of nearly 54%. Added to this is approximately 18 billion euros in work-in-process. Inventories are estimated at 33 billion euros in gross value and depreciated in the amount of one billion.

II.44. Application of the accounting principles for valuing tangible and intangible assets and inventories has met with many practical problems related to the age of the equipment, the acquisition procedures and the volume of information concerned. Most of the equipment, and especially equipment manufactured under contracts made by the *Délégation générale pour l'armement* (French General Delegation for Armaments – DGA) or by the *Direction des constructions navales* (French naval shipbuilder – DCN) for French Navy ships placed in service before 2003, could not be valued in accordance with the standards, and there were significant discrepancies among the various departments for similar equipment. This equipment was valued on the basis of the costs indicated in the logistics information systems, which do not meet the criteria defined by the standards. For example, standard 6 states that assets are valued at their acquisition cost. If this cost cannot be determined, the standard allows the use of statistical methods to reconstruct the starting cost. However, a statistical method implies reference to a reliable information base (such as catalogue prices) to limit the margin of error to an acceptable level. In the case of the Defence Ministry's equipment and inventories, most of the assets come from the General Delegation for Armaments and are shown in the information systems with prices that are not taken from invoices from this delegation but from information that is often not in writing and the relevance of which cannot be audited. These prices in no way constitute a statistical valuation method as provided by the standard. They should have been replaced, at least for the most significant equipment that is not yet

depreciated, by more accurate valuations, which are the same among all the armed forces, based on the best estimates available at the Ministry.

II.45. In addition, there were some problems related to the depreciation periods used, which do not reflect the probable useful life of the equipment, and to the regular absence of depreciation in many departments. Lastly, no provisions are set up to cover the costs of dismantling fixed assets and inventories at the end of their life cycle. This last point is mentioned in the appendix to the central Government's general account (see Note 8, section 8.2).

II.46. With regard to tangible assets in process, in the absence of an analytical valuation based on a review of the contracts related to current weapons programmes of the General Delegation for Armaments, these were valued on a fixed-amount basis. Standard 6 regarding tangible assets allows the use of statistical methods to reconstruct acquisition costs. However, the method proposed by the DGA as it now exists poses certain problems since it is based on an incomplete valuation of budgetary expenditures and non-accounting documents and relies on quantitative hypotheses that are not supported by the necessary statistical verifications to ensure their reliability.

II.47. The *intangible assets* recorded in 2006 are, for the most part, development costs related to weapons programmes (34 billion euros in gross value, 25 billion euros in net assets). However, these assets were valued according to the fixed-amount method described above and applied to current programmes. Development costs related to completed programmes are not identified, as is the case at all the other ministries.

II.48. Although the fixed-amount method used to recognise development costs of weapons programmes shows amounts that reflect an economic reality, it does not meet the criteria defined by standard 5 concerning intangible assets. Indeed, this standard provides strict rules for the recognition of intangible assets to ensure that these immaterial assets have a solid accounting basis.

II.49. *Inventories* are not valued according to one of the two methods allowed by standard 8, i.e. the first-in first-out method or the weighted average unit cost method. In fact, in most cases the inventory management information systems include the cost of the last procurement, which overwrites the previous data with each new procurement. However, this information is mentioned in the appendix to the central Government's general account (see section 2, paragraph 2.3.2).

c) Identification procedures and the regulatory framework

II.50. In addition to the aforementioned flaws in the Defence Ministry's logistics information systems (see above, § II.38,p. 20), the inventory procedures were shown to be inadequate. In particular, the format of the inventory computer files must be improved to ensure better data reliability.

II.51. Moreover, certain principles related to the valuation of military equipment have not yet been approved. These refer, in particular, to the recognition of subsequent expenditures, rules for the accounting treatment of weapons programmes developed through international cooperation, and the accounting of major replacement parts as fixed assets or inventories. The anticipated instructions concerning the recognition of military equipment have not been developed and the accounting standards refer to specific thresholds which have not been defined. The 10,000 euro threshold used for non-military equipment was applied to military equipment. Moreover, the decree regarding the recognition of the Defence Ministry's equipment uses other thresholds, which is a source of error and confusion, and no steps have been taken to ensure the overall consistency of the applicable rules.

d) Year-end adjustments

II.52. An analysis of the inventory master files on the closing balance sheet revealed that, compared to those on the opening balance sheet, assets had increased for an amount of nearly 7 billion euros (3.725 billion euros for tangible assets and 3.149 billion euros for inventories).

II.53. The total adjustments recorded represent upward and downward variances of several billion euros. They were made simply to adjust the accounts according to the position shown in the inventory master files on the closing balance sheet. Some of them correspond to unidentified anomalies. This adjustment to the 2006 year-end master inventory files leads to accounting inconsistencies that distort the opening

balance sheet and closing balance sheet data and will also have an impact on the 2007 accounts.

II.54. It is likely that additions to assets will again be noted in the coming years. They will need to be proposed and justified by the inventory holders.

II.55. At closing, the Defence Ministry calculated the commissionings for the year based on the inventory master files. This process reveals many inconsistencies between the valuation of work-in-process and the master inventory files and leads to several errors:

- The commissionings are valued based on the values in the inventories which are usually different from the values of work-in-process, which leads overall to an overvaluation of fixed assets in process on the closing balance sheet.
- No commissioning is recognised for intangible assets; the costs of developments completed in 2006 are therefore not shown and depreciation corresponding to these commissionings was not calculated.
- Missiles (recognised as on-hand inventory, with nuclear missiles not recognised) and mid-life renovations delivered in 2006 were not removed from work-in-process.

II.56. The valuations of fixed assets in process were reconstructed based on these commissionings, presumably underestimated, but also on the annual payment flows from accounting, which increased work-in-process. All the expenditures were recognised as tangible assets in process (no payments were recognised as intangible assets in process) and the portion of capitalised expenditures was overestimated in relation to the data provided by the General Delegation for Armaments. All things considered, the increase in intangible assets in process from 14 billion euros to 18 billion euros between the opening and closing balance sheets is not justified.

e) Fixed assets and accrued expenses

II.57. The work related to recognition of fixed assets and accrued expenses was not entirely trustworthy and the options chosen for the recognition of expenses matched to the fiscal year contain both risks and errors. Some assets were recorded twice in 2006 and the same risk exists for 2007. Some advances from the General Delegation for Armaments were not reported on the closing balance sheet, which partly explains the change in fixed assets in process related to the fiscal year, which decreased from 1.751 billion euros on the opening balance sheet to 815 million euros on the closing balance sheet.

f) Control of data included in the balance sheet

II.58. Due to a lack of time, the administrative departments and the ministerial accounting department did not implement the control plans provided by the Public Accounting Directorate regarding data included in the balance sheet.

II.59. The late reconstruction of the inventory master files from the opening balance sheet meant that the ministerial accounting department had to process both the opening and closing balance sheets in just a few weeks. As a result, controls on the files from the closing balance sheet were practically non-existent. This is also true for the reliable valuation of fixed assets in process, which was carried out by one or two people within a very short period of time.

g) Conclusion

II.60. Overall, the failure to apply the accounting rules and methods on various points constitutes a substantial disagreement.

II.61. In a letter dated 19 April 2007, the Defence Minister's Chief of Staff informed the Court of the actions that the Ministry has agreed to take in order to improve the procedures and the quality of the accounting data.

II.62. These actions are part of a multi-year process which covers two key aspects: the work of the General Delegation for Armaments aimed at implementing management accounting of current weapons programmes and, more generally, actions related to expanding the scope of the identification process, tools and methods and standards issues.

II.63. The course which the General Delegation for Armaments is determined to follow to improve the accounting treatment of current weapons programmes includes:

- The analytical treatment of current weapons programmes, based on an accounting analysis of the contracts, over a three-year period, including 50% of current weapons programmes for the 2007 year-end closing and 80% of these programmes and the accounting treatment of cooperation programmes for the 2008 accounts. The fixed-amount method would remain in effect as of 2009 for a residual portion of lower-cost investment activities.
- For the 2007 year-end closing, improvement of the fixed-amount method used for the 2006 accounts and a bridge between this method and the analytical method.
- Creation of inventories of intangible assets and adjustment of the inventories of tangible assets in service.
- Implementation of accounting tracking of weapons programmes in order to optimise the valuation of new contracts.

II.64. This course entails the allocation of internal resources as well the use of outside services.

II.65. The second aspect of the Defence Ministry's commitments entails enhancements to this administration's ministerial action plan. These enhancements mainly concern: improving the scope of the asset identification process; tools and methods for improving data reliability and auditability together with the ministerial accounting department; clarifying standards together with the DGCP and, in particular, harmonising asset depreciation rules and capitalization thresholds and inventory tracking, as well as defining rules for the accounting treatment of assets by components and provisions for the restoration of assets (dismantling, asbestos removal, pollution control).

II.66. In a letter dated 2 May 2007, the Ministry's General Secretary for Administration added to these commitments on the basis of two points raised by the Court:

- First of all, the ministry plans to enhance the valuation of tangible and intangible assets in service for completed weapons programmes by taking into account, starting with the 2007 closing balance sheet, the results of a review of several large-scale weapons programmes.
- Secondly, the question of depreciation of assets, generally not recognised in the central Government's 2006 year-end accounts, is indeed included in the ministerial action plan.

4 - Operators' accounts

II.67. In 2006, the category of operators of the central Government's policies included 789 entities, with various legal statuses (public institutions, public interest groups, associations, etc.), which are controlled by the central Government in accordance with accounting standard 7. These entities are engaged in mostly non-commercial activities that are strictly regulated and financed primarily by the central Government, which defines their missions and objectives.

II.68. The central Government's interests in its operators are shown on the assets side of its balance sheet and total 53.7 billion euros after taking into account the equity method valuation differences at the end of 2006, i.e. approximately one-third of the central Government's total financial interests.

II.69. The Ministry of the Economy, Finance and Industry has already begun to improve the quality of the accounts of national public institutions (EPN). Work was undertaken in 2006 to improve the accuracy of the real estate holdings that are presumably controlled by the EPNs. An important data reconciliation project aimed at confirming the information in the TGPE and identifying reciprocal claims and debts between the central Government and its institutions has begun. Efforts to make authorising officers and accountants aware of accounting quality requirements and to implement internal control procedures have continued. A database has been set up to automate the EPNs' accounts transmission process.

II.70. Despite the considerable amount of work carried out by the central Government's departments, a number of inadequacies still exist:

- Approximately two-thirds of the operators, representing 28% of the value of the Government-controlled entities, were unable this year to prepare their 2006 financial statements in time for them to be included in the calculation of the Government's interest at 31 December 2006. This calculation was therefore based on the 2006 or 2005 accounts, depending on the case.
- The identification, valuation and recognition in the operators' accounts of assets assigned to the institutions by the central Government show inadequacies that could have an impact, which cannot be estimated at this point, on the central Government's balance sheet and income statement. Many assignment procedures are still in process and valuations, when carried out without using the services of France Domaine, are often partial.
- In the vast majority of controlled universities, all or some of the assets assigned or being assigned are not shown on the respective university's balance sheet because the assignment reports that list all these assets and indicate, among other things, the person responsible for replacing them were not obtained from the local education authority.
- Land belonging to the central Government and controlled by the National Association for the Professional Training of Adults (AFPA) does not appear on any balance sheet. The tangible assets required for the activity of *Voies Navigables de France* (VNF) are not shown on its balance sheet, since the reports that are meant to establish the list of buildings that the entity needs to carry out its assignments, and which it controls, have not yet been generated. These assets, the list and estimate of which are currently unknown to the Court, should eventually be shown in VNF's accounts.
- The institutions that have drawn up a complete, reliable inventory of the assets they control are few in number, and those that plan to implement an annual inventory procedure are even fewer.
- Irregularities in terms of the accounting standards applicable to EPNs have been noted. For example, the date used for recognition of fixed assets is sometimes the date on which the order was issued, which does not comply with regulations. Depreciation of own assets, as well as the offset depreciation of assets that the central Government is responsible for

replacing, does not comply with the accounting instructions. For the period preceding the software installation, depreciation was sometimes replaced by accumulated amortisation.

- The accounting rules and principles applicable to the central Government and its operators may be different and, under certain circumstances, lead to inconsistencies related to sales of real estate. This is particularly true of the *Agence centrale des organismes d'intervention dans le secteur agricole* (ACOFA – Central Board of the Agricultural Sector Operating Organisations), which is now *Agence Unique de Paiement* (AUP).
- Uncertainties regarding the recognition of reciprocal debts and claims between the central Government and its operators and the identification of risks and liabilities related to their activity have been detected (*Agence de maîtrise d'ouvrage des travaux du ministère de la justice* – Building Management Agency of the Ministry of Justice, *Agence nationale pour l'amélioration de l'habitat* – National Housing Improvement Agency, AFPA, etc.).

II.71. All these inadequacies constitute a limitation to the Court's audits due to delays in production of these operators' accounts and a significant disagreement regarding their fixed assets in the central Government's accounts.

II.72. For the 2007-2009 period, the Finance Ministry plans to continue to implement measures aimed at improving the accuracy of the assets controlled by the operators in order to ensure their correct valuation and complete recognition. It has also agreed to define, in conjunction with the responsible ministries, targets and a timeline for high-priority actions (expanding the obligation to follow the account certification procedure, developing internal control and audit, drawing up action plans to make the accounts more reliable). Specific projects will be carried out for the institutions under the authority of the Ministry in Charge of Higher Education and Research, which showed serious deficiencies in terms of accounting. The Finance Ministry has also agreed to consult with the central Government accounting standards committee in order to clarify the applicable accounting standards, settle standards conflicts and prepare for the next phase of consolidating the central Government's accounts with those of these entities.

5 - Specific tangible and intangible assets

II.73. The central Government has specific assets whose identification and valuation are stipulated in the central Government's accounting standards. These include assets provided under a concession agreement and specific intangible assets that were not identified at 31 December 2006. This absence is mentioned in the appendices.

II.74. Assets built by the central Government and provided under a concession agreement, including in particular highways and dams, are not shown in the accounts. For these two categories of assets, the financial implications of which are significant, the lack of a reliable identification and valuation at the ministries in question as of 31 December 2006 created difficulties for the preparer of the accounts.

II.75. The question of the appropriate accounting treatment of public-private partnerships or similar projects on the balance sheet is not raised in the 2006 accounts. Since no projects had begun yet, only the commitments given are shown in the appendices.

II.76. As for the specific intangible assets, the central Government's accounting standards define and provide for their valuation. These assets are related to the Government's power to authorise and limit the occupation or exploitation of the public domain, as it did, for example, when it issued mobile telephony licences. This intangible assets category was not shown on the balance sheet, since the preparer of the accounts was waiting for clarification of the standard, and in particular on the valuation methods that should be used.

II.77. The reason given by the preparer of the accounts for his discretion regarding the general subject of accounting treatment of concessions and later of public-private partnerships and similar projects was the need to clarify the central Government's accounting standards, in a context of international debates on the rules governing ownership, control and accounting treatment.

II.78. Although the identification and valuation of assets granted or provided under a concession agreement and of specific intangible assets poses methodological problems, it is clear and not disputed that these specific assets should have appeared on the central Government's balance sheet at 31 December 2006, which the preparer of the accounts was unable to do despite the fact that considerable efforts were made to better determine the scope of these assets. The Court notes that this constitutes a disagreement on the valuation of the fixed assets.

II.79. The Finance Ministry made several commitments for 2007 and an initial inter-ministerial project aimed at identifying the concession agreements will be launched. A review of the treatment of specific intangible assets and public-private partnerships will also be carried out so that they can be recognised for the first time in fiscal year 2008.

6 - Interest rate swap agreements for debt management

II.80. In 2001, the Ministry of the Economy, Finance and Industry decided to implement a financial arrangement aimed at reducing the Government's interest rate debt. This arrangement entails reducing the average term of loans already floated which, when certain conditions are met, effectively leads to a reduction in the interest paid, as was the case from the beginning.

II.81. The reduction of the average term of the debt is achieved through interest rate swap agreements under which two parties exchange streams of interest (generally a fixed rate against a floating rate) based on a given principal amount and payment schedule. The principal amount is not part of the swap, but simply serves as a reference for calculating the interest.

II.82. In the arrangement used, the Government retains its loans issued at a fixed rate over a long period (for example, 10 years) but finds counterparties in the financial markets who agree to pay the interest at a fixed rate on an amount corresponding to a portion of these loans and, in return, pays these counterparties interest on the same amount but at a floating rate (Euribor 6-month), which is revised every six months based on market conditions over the entire term of the agreement (10 years in this case). Since it does not wish to remain exposed to the floating rate, the Government enters into a second agreement at the same time under which it receives, in principle, the same floating rate as the rate it must pay under the first agreement (Euribor 6-month) and pays a fixed rate corresponding to a slightly longer payment schedule (two years). These agreements, which have shorter terms than the first, are automatically renewed upon expiration. The combination of these two types of agreements, when they back each other up completely, means that the Government pays only fixed-rate interest. More importantly, they allow the Government to enjoy interest rates based on a shorter term than that of its floated loans (2-year rate versus 10-year rate).

II.83. At 31 December 2006, the portfolio of interest rate swap agreements appears off the central Government's balance sheet and totals 44,412 million euros (face value of the agreements), with terms ranging from 2 to 15 years. It consists of the following:

- short interest rate swap agreements as a fixed-rate payer/floating-rate receiver: 15.75 billion euros (face value of the agreements);
- long interest rate swap agreements as a fixed-rate payer/floating-rate receiver: 5.206 billion euros;
- long interest rate swap agreements as a fixed-rate receiver/floating-rate payer: 23.456 billion euros.

II.84. This financial strategy adopted by the Finance Ministry is based on the notion that, over a long period, short-term interest rates are lower on average than long-term interest rates. This view was indeed confirmed between 2001 and 2006, despite the fact that the gap between the rates has narrowed recently, and has even tended to be reversed. In 2006, for example, the arrangement resulted in a net gain of 460.1 million euros (excluding interest paid on margin calls).

II.85. As it does for its entire debt issue policy, the Finance Ministry reported to Parliament and investors on this arrangement.

II.86. Accounting standard 11 regarding financial debt and financial futures expressly treats such a strategy of reducing the average term of the Government's financial debt, under certain conditions, as a "macro-hedging" strategy within the meaning of banking regulations. "Macro-hedging" is an arrangement used by credit institutions to reduce the overall risk posed by changes in interest rates on their assets, liabilities and off-balance sheet commitments in order to ensure that their profit is affected as little as possible by interest rate fluctuations. Instruments that ensure such hedging are recognised off the balance sheet.

II.87. However, the above arrangement does not meet the conditions set out in this standard and those defined by the banking regulations to which the standard refers for two reasons.

II.88. First of all, it does not meet two basic criteria of overall interest-rate risk hedging. On the one hand, it increases the debt's exposure to the risk of changes in both the Euribor 6-month interest rate and the 2-year interest rate since, because of the swap agreements, the interest rate applicable to the hedged loans is revised every six months and every two years rather than every 10 years. On the other hand, it implies an expectation about changes in interest rates, since it is effective only if short-term rates remain lower than long-term rates. Such a

position is not in line with the objective of overall interest-rate risk hedging.

II.89. Secondly, the conditions under which the interest rate swap agreements are implemented, managed and monitored do not meet the requirements set out in the standard. At the time of the year-end closing, the relevance, updating and documentation of the model on which the definition of the strategy was based did not adequately show the effectiveness of the arrangement. And yet, these factors are important conditions for categorising operations as macro-hedging transactions.

II.90. For all these reasons, the Court believes that the interest rate swap arrangement does not qualify as a macro-hedging transaction as defined by standard 11. It therefore disagrees with the accounting treatment used, which entails recording the transaction off the balance sheet under the “macro-hedging” category.

II.91. With regard to the conditions under which the arrangement is managed, the Finance Ministry has agreed, starting with fiscal year 2007, to update the model on which the hedging strategy is based, to improve the related documentation and to conduct forward-looking and backward-looking tests at each year-end closing and each time a significant atypical event occurs in the markets. It also agreed to have an outside expert conduct an *inter-partes* review of the strategy implemented and to review the organisation and the resources allocated to the department responsible for risk management at Agence France Trésor. The results of these efforts will be presented in the annual performance report on programme 117 *Government debt and treasury management*.

II.92. Moreover, with regard to qualification of the arrangement, the Ministry also expressed its intention to consult with the standards committee on the difficulties in applying standard 11 to interest rate swap agreements.

7 - Account of Coface transactions carried out with Government guarantee

II.93. The *Compagnie française d'assurance pour le commerce extérieur* (Coface), founded in 1946, manages four public procedures aimed at supporting and promoting French exports with the Government's guarantee. The principal procedure is credit insurance. This entails covering an insured, over the medium or long term, who exports to a public or private purchaser against a variety of risks that cannot be insured in the market. In the event of a loss, Coface pays compensation to the insured, except for an uninsured portion for which the latter is responsible. It attempts to collect these debts on the Government's behalf. The premiums paid by the insureds and the collections on losses are deemed to cover the benefits paid out. Cash flows are recorded in a cash account managed by Coface outside the scope of public accounting. The Government pays to this account the funds needed to pay credit insurance claims that exceed the available funds in said account as well as the funds needed for other loss-generating procedures. Similarly, it makes deductions from the surplus cash balance.

II.94. After being privatised in 1994, Coface⁴ was required by the amending budget act for 1997 to set up, for transactions it carries out with the Government's guarantee, separate accrual-based accounting that complies with the chart of accounts used by insurance companies. At the end of 2005, the balance sheet total of this "Government account", which does not have the status of a corporate entity, was 17 billion euros, 4.7 billion of which corresponded to the balance of the cash account after the Government's deduction. This account's assets and liabilities are not included in Coface's consolidated accounts, and the activities it carries out on its own behalf are valued at 1 billion euros on the balance sheet. They are also not included in the central Government's accounts, even though they are mentioned in the appendix to the central Government's general account.

II.95. However, an asset and a liability cannot exist without being matched to a legal person. Moreover, international accounting standards (IAS 31, section 19, SIC 12, section 1 and IPSAS 8, section 24) allow for cases of unincorporated entities whose accounts must be consolidated with those of the entity that controls them.

⁴ Since 2002, its shareholder has been the Natexis Banques Populaires group, which became Natixis in December 2006.

II.96. In addition, the central Government's accounting standards use the criterion of control and not of ownership to determine asset recognition, with control assessed "*based on the conditions under which the asset is used: decision-making power regarding use, responsibilities, charges and risks related to this power*". These conditions are met in the case at hand since, even though Coface has investigative, decision-making and management power regarding policies and claims, the Government alone has decision-making power regarding the largest requests for coverage. Moreover, each year the Government makes a deduction from the institution's cash balance in favour of the general budget, at its own decision, which mainly corresponds to collections on old claims paid earlier through payments from the general budget. Income reported in the central Government's accounts related to these deductions totalled 1 billion euros in 2004, 2 billion euros in 2005 and 2.5 billion euros in 2006.

II.97. For its part, the Ministry of the Economy, Finance and Industry believes that, pursuant to Articles L. 432-1 to L. 432-4 of the French Insurance Code, Coface acts in its own name as an agent pursuant to Article L. 132-1 of the French Commercial Code on behalf of the principal, i.e. the Government. It therefore concludes that the account showing the transactions guaranteed by the Government must be shown separately in Coface's accounts so as to reflect its specific nature, including its characteristics of a special-purpose fund.

II.98. Without discounting the complexity of the subject and the constraints related to this account's legal and accounting status, the Court notes that the current status quo does not comply with the central Government's accounting standards, which were adopted pursuant to Article 30 of the LOLF.

II.99. The Finance Ministry has agreed to research the necessary changes, in consultation with Coface, and in particular to consider improving the presentation of this account so that it is clearly shown as a special fund in Coface's accounts. It has also agreed to make deductions from this account under the conditions that will now be defined in schedule A of the initial or amending budget act for the fiscal year. The financial agreement between the Government and Coface will be amended accordingly, with a provision added to maintain the account's liquidity.

8 - Savings funds centralised at the *Caisse des dépôts et consignations*

II.100. The role of the *Caisse des dépôts et consignations* (CDC) is to centralise and manage funds from various regulated savings products applied for by individuals and legal persons (*livret A, livret bleu, livret d'épargne populaire, Codévi*, which is now "*livret de développement durable*", *compte épargne logement, livret jeunes*, etc.). Each type of centralised deposit is managed in a special fund backed by a reserve and guarantee fund. The utilisation of these funds is governed by laws and regulations. The Government guarantees savings deposits, whether or not they are centralised at the CDC⁵, and as such assumes liquidity risk. Moreover, it may guarantee, on a case-by-case basis, loans which the CDC considers risky. Through the savings funds section, which represents a balance sheet total of 205 billion euros after partial transfer to the Banque Postale, the CDC plays a key role in the financing of social housing and urban renewal, a public interest initiative that is part of a public policy.

II.101. The Finance Ministry was of the opinion that the savings funds were not included in the Government's interests, even as a non-controlled entity, since none of the criteria related to control or non-control as defined by standard 7 were met. Moreover, the transparency of the savings fund accounts was ensured by the financial information provided in the appendix to the Government's general account, by the CDC's publication of specific accounts certified by its auditors, and by the control provided by the CDC's supervisory board and its offshoot, the savings fund committee.

II.102. As it indicated in its special report on savings fund accounts and management (1999-2004) submitted to Parliament and the Government in July 2005, the Court believes that the CDC's transition to the IFRS standards and the Government's implementation of accrual-based accounting require clarification of the accounting treatment of this complex legal arrangement whose accounts are shown in an accounting unit of the CDC that is separate from its own accounts and which does not have the status of a corporate entity. Indeed, under French law, property in mortmain has not existed since 1789 and international accounting standards (IAS 31, section 19, SIC 12, section 1 and IPSAS 8,

⁵ The legal basis of this Government guarantee is provided by Articles L. 221-8 and L. 518-26 of the French Monetary and Financial Code and the budget act for 1983 of 29 December 1982.

section 24) have all moved toward consolidation of the accounts of unincorporated entities with those of the entity that controls them.

II.103. The criterion of control as provided by standard 7 is assessed “*based on the conditions under which the asset is used: decision-making power regarding use, responsibilities, charges and risks related to this power*”. However, even though the respective roles of the CDC and the Government lead to a complex situation, the Court believes that the control criteria place the savings funds under the CDC’s management and the supervisory board’s protection. Like those of the general section, the accounts of the savings fund section are approved by the CDC’s Director-General after receiving the opinion of the supervisory board and are published in the same annual report. The amounts deducted by the general budget are established by a decree issued after receiving the opinion of the supervisory board. Day-to-day management decisions regarding the savings funds are made by the CDC, even though the Government has a say in these decisions. Loans for the financing of social housing are granted, under the conditions established by the Government, by the CDC, which is responsible for reviewing them and deciding whether or not to grant them. The CDC decides on the asset-liability management policy.

II.104. On the other hand, the Government decides on the utilisation of the savings funds and establishes certain rules regarding investment of the financial assets. It has ordered the creation of reserve and guarantee funds subject to specific prudential rules aimed at covering losses in the event of significant outflows on the regulated accounts, thereby preventing the general budget guarantee from being enforced. It has the power to stop this activity by putting an end to the regulated savings deposit centralisation mechanism. It derives a significant economic benefit from this activity: as payment of its guarantee, it collects a deduction from the reserve and guarantee funds of the CNE (national savings bank) and savings banks (932 million euros in 2004, 1.099 billion euros in 2005, 748 million euros in 2006), as well as a deduction from other savings funds that have available resources (682 million euros in 2004, 98 million euros in 2005, 555 million euros in 2006). These deductions totalled 50 billion euros between 1991 and 2005. Lastly, the Government ultimately bears the mismatch risk corresponding to the transformation of sight deposits into very long-term loans whose interest rate cannot be adjusted based on borrower risk.

II.105. With regard to the control criterion, the savings fund section has the same characteristics as the general section and should therefore, like the latter, be classified as a non-controlled entity in the Government’s interests account. The fact that it does not have the status

of a corporate entity is not a deciding factor, since both sections are placed under the same authority. The fact that standard 7 does not allow for the case of savings funds cannot be construed to mean that they should be excluded from the central Government's accounts as a non-controlled entity at acquisition cost. The lack of a corporate entity status did not prevent the Government, in consultation with the Court, from including in its interests the debt retirement auxiliary service (SAAD), an unincorporated service which is a separate accounting unit within the accounts of the French national railway company (SNCF) but not yet consolidated at 31 December 2006.

II.106. Since the Government's guarantee is given to savers and not to the savings fund section, the matching of assets and liabilities that make up this section to a legal person, the *Caisse des dépôts*, which manages them "on a discretionary basis" and their consequent valuation among the entities not controlled by the Government are in no way inconsistent with the provisions of the French Monetary and Financial Code and have no bearing on questions of ownership.

II.107. Based on the above, the Court believes that the savings fund section should be reflected in the Government's accounts as financial assets of the Government by classifying it, as it does with the general section, among the non-controlled entities, even if it does not have the status of a corporate entity. The capitalised value is 7.663 billion euros on the opening balance sheet and 7.081 billion euros on the closing balance sheet based on the accounts at 31 December 2006.

II.108. The Finance Ministry has agreed to clarify the relationship between the Government and the *Caisse des dépôts et consignations*, discretionary manager, in the management of the savings funds.

9 - The road system

II.109. The amount of the *existing national road system* shown in the accounts at 31 December 2006 is 104.3 billion euros (net book value). According to accounting standard 6, roads must be valued at their new reconstruction cost depreciated by the total amount of repair of the system.

II.110. At the time of its interim audits, the Court had expressed doubts concerning the reliability of the method used to value this specific asset of the central Government.

II.111. In light of this difficulty, the French Ministry for Infrastructure, Transport and Housing expedited an internal audit aimed at assessing the method. This audit, conducted by the French General Council of Bridges and Highways, concluded that the valuation of the national road system is realistic. However, it noted some uncertainties affecting both its new reconstruction cost and its depreciation. In any event, at the time of the year-end closing, the findings of this audit, which the administration used to confirm the valuation of the road system, were partial and temporary. Moreover, they were provided to the Court too late for it to analyse them in time for the audit of the accounts, which constitutes a limitation to the scope of the certification work. For all these reasons, the Court believes that there are still uncertainties concerning the method used to value the roads.

II.112. Use of the method presents limitations related to both the valuation of the reconstruction cost and calculation of depreciation. As for the first point, the uncertainty stems mainly from the use (excluding the year of commissioning, for which highway infrastructures are valued at their acquisition cost) of statistical costs, which, in principle, are not disputed but the conditions of which are flawed, and the use of simplifying assumptions which themselves are flawed. Moreover, these statistical costs and assumptions do not take into account the administration's own costs. As for the second point, the method's limitations concern the frequency at which the depreciation of roads, engineering works and tunnels is updated and its reliability. Some of the method's limitations are explained in the appendix to the central Government's general account.

II.113. In addition, and as an exception, the 2006 accounting data was prepared based on the premise that there had been no change, on a like-for-like basis (i.e. excluding commissioning during the fiscal year), in the amounts shown on the balance sheet between the start and end of the fiscal year: no entry showing a change in the value of the system was therefore recorded in 2006, which limits the scope of the financial information shown in the accounts for the fiscal year.

II.114. With regard to *highway infrastructures under construction* (net book value of 9.5 billion euros at 31 December 2006), the audits of the closing and valuation procedures revealed numerous uncertainties regarding their identification and, therefore, the reliability of the resulting estimates. There is no assurance as to the completeness and accuracy of the data since some 10 departmental facilities directorates (DDE) failed to provide data. At the same time, work-in-process related to projects transferred to local governments was not removed from the central Government's balance sheet.

II.115. Thus, despite the considerable amount of work carried out by the central Government's departments, which forms a solid basis for the identification and valuation of the existing national road system, the Court cannot, as things now stand and in light of the aforementioned uncertainties, confirm the amounts of the existing road system and highway infrastructures under construction shown on the opening and closing balance sheets for fiscal year 2006.

II.116. However, the Ministry of the Economy, Finance and Industry and the Ministry for Infrastructure, Transport and Housing have made scheduled commitments to improve the procedure regarding the aforementioned points. In particular, each of these ministries has agreed, starting in fiscal year 2007, to:

- confirm the kilometre construction cost ratios used;
- speed up the information transmission process so that projects can receive consistent treatment regardless of the year in which they are commissioned;
- limit the effects of the frequency of information related to the condition of the system (only a third of which is audited annually) in order to provide a more accurate picture of its depreciation;
- take certain internal costs into account and give special attention to work-in-process and concessions;
- update the information system on knowledge of the road system (*SICRE*) to ensure the reliability of its data.

10 - Real estate holdings

II.117. The net book value of the central Government's real estate holdings and buildings in service shown in its accounts at 31 December 2006 is 49.1 billion euros.

II.118. For the most part, this valuation is based on market values. However, historical buildings and certain specific assets, such as cemeteries, were valued based on the symbolic euro. Penitentiaries are valued on the balance sheet at 4.4 billion euros, which corresponds to their depreciated replacement cost based on their specific nature.

II.119. The identification and valuation of these holdings depend on the quality of the general schedule of central Government properties (*TGPE*). This application, provided as a sub-ledger accounting tool, has several flaws. For example, it contains only a limited number of automated controls, some of which are inadequate. It has no data historisation capabilities. It has no interface with the expenditure and general accounting applications. Under these circumstances, the amount and complexity of the manual controls needed to ensure the reliability of the financial information concerning real estate holdings and to integrate this information into general accounting constitute a limitation to the Court's ability to conduct in-depth audits.

II.120. In light of patchy and, in most cases, incomplete knowledge of the real estate holdings assigned to them, the ministries have made considerable efforts to identify these holdings since 2004. However, as a result of the procedure for declaring the inventory of real estate assets and the lack of an interface between the inventory tracking EDP application and the central Government's expenditure applications, there is still uncertainty regarding the completeness of the identification.

II.121. The reconciliation of data from the land registry database and parcel data from the central Government's inventory of real estate holdings revealed discrepancies that were not justified by the administration. The surface areas may be incorrect, at times by a very large upward or downward margin. The state of repair, which is also used to value the property, is generally not assessed with sufficient accuracy.

II.122. In addition, despite substantial changes to surface area data and the commissioning of large works in 2006, the property was not revalued at closing. Moreover, approximately 4% of the property has not yet been valued. Finally, using the market value for valuation of the most atypical property, in its current state, for which there is virtually no market is a random method. For example, the problems surrounding the valuation of court houses and very large military installations should be underscored.

II.123. The uncertainty concerning the value of such a large and specific heritage is made worse by a variety of flaws in the inventory and valuation process. For these reasons, the Court was unable to confirm the valuation of all the central Government's real estate holdings.

II.124. The Finance Ministry, which largely concurs with these findings, has agreed to:

- determine the value of property not yet valued in 2005 and 2006 and conduct an on-site valuation of property on which work was completed in 2006 or whose surface area changed significantly;
- continue to identify and value the real estate holdings not controlled by the central Government and ensure their accuracy;
- ensure the reliability of the property's characteristics in connection with expansion of the budgetary rents mechanism;
- set up a system to improve cross-checking between the central Government's inventory of real estate holdings and the land registry database.

11 - Fiscal obligations

II.125. Fiscal obligations are debts which the central Government has toward taxpayers benefiting from reduction measures on taxes that are payable in theory. They include, for example, VAT credits payable to taxpayers when the amount of VAT they collect exceeds the amount they can deduct. In terms of corporate tax, they pertain to tax credits (research tax credit, tax credits for companies created in a priority investment area, etc.), claims resulting from the carry-back of losses and other tax deductions for which businesses may be eligible.

II.126. Based on the tax, the taxpayer's ability to use these measures may extend beyond the current fiscal year. This gives rise to a right in the taxpayer's favour which, in the regulatory context of the LOLF, must result in the recognition of a debt on the part of the central Government in its accounts at the end of the fiscal year. Indeed, the central Government's accounting standard 3 stipulates that "*accounting is based on the principle of recognition of rights and obligations. Transactions must be entered for the fiscal year to which they apply, regardless of their date of payment or collection*".

II.127. The functional limitations of the *MÉDOC* application, which is at the heart of the tax administration's business IT architecture (see above, § II.11, p. 15), make it difficult to immediately and reliably identify the carry-over fiscal obligations that need to be valued. This outdated application was developed for cash basis accounting, and management events that result in the recognition of a debt in favour of taxpayers are not automatically reflected in general accounting.

II.128. In order to adhere to the principles of accrual-based accounting and the accounting standards, the administration relied on an alternative procedure to value the carry-over fiscal obligations at the year-end closing. However, the results of this work and the quality of the data produced prevent the Court from expressing an opinion on the reliability of the corresponding accounts.

II.129. Indeed, with regard to fiscal obligations related to corporate tax, this procedure does not ensure the completeness or accuracy of the data recorded. Given the short amount of time available to conduct the audits, the queries performed on the tax databases could not take into account all the management rules needed to obtain this data.

II.130. Similarly, the carry-over VAT credits were only partly identified to recognise the debt owed to taxpayers. In fact, the only VAT credits recorded were those for which the taxpayer had submitted a reimbursement request. Situations in which the taxpayer could apply the credit to future tax were not identified.

II.131. For all these reasons, the amounts of carry-over fiscal obligations, whether recorded in the form of provisions for charges (fiscal obligations related to corporate tax: 4 billion euros at the end of the fiscal year) or in the form of non-financial debts (Other accrued expenses – VAT: 9.5 billion euros) are uncertain.

II.132. By the same token, provisions should be recorded for the impact of tax losses related to corporate tax in a proportion that should be reasonably estimated and will correspond to the resulting decrease in tax revenues in the year in which they are applied by the taxpayer. Although claims resulting from the carry-back of losses were properly valued and entered on the opening and closing balance sheets, this is not the case for ordinary tax losses, which may now be carried forward without any time limits. The administration objects to this on the grounds that there would not be recognition of a claim, but only recognition of the possibility of a subsequent decrease in the tax base.

II.133. Losses were not identified at the 2006 year-end closing and failure to take them into account undervalues the amount of the central Government's provisions for sums payable to corporate taxpayers.

II.134. And yet, the Court notes that the administration is aware of these losses since they are reported on tax returns and the related tax amounts appear in the accounts of the companies in question. The central Government's accounts must show the effects of these losses since the company's right to deduct them from its tax base in subsequent years until they are used up constitutes an obligation for the Government to not claim, for each of these fiscal years, the amount of tax resulting from the subsequent deduction corresponding to the tax base. By this very fact, the conditions for setting up a provision for risks and charges are met: the Government's obligation is confirmed once the company recovers financially, the exact amount is known and the non-collection of tax revenues is certain. By recording a provision, the reality of the economic situation is more accurately reflected. Over the following fiscal years, this provision will be written back in the amounts in which the tax losses are utilised and applied to tax revenues. In this way, the central Government's accounting will adhere to the principle of matching the respective sovereign revenues to the fiscal year based on the companies' tax status.

II.135. All these findings constitute a limitation for the Court related to the inadequacies of the *MÉDOC* application, as well as a disagreement concerning both the amount of the carry-over fiscal obligations shown on the balance sheet and the failure to take into account obligations arising from the rights acquired as a result of carry-over tax losses.

II.136. To mitigate some of these inadequacies, the tax administration has agreed to consider, starting in 2007, the feasibility of an interim closing procedure aimed at making the adjusting entries more reliable.

12 - Intervention liabilities

II.137. As part of its economic and social mission, the central Government finances, directly or indirectly, a large number of intervention measures aimed at a variety of recipients (households, companies, local governments, associations, etc.). Intervention expenses totalled slightly more than 147 billion euros at 31 December 2006 and the liabilities entered in the accounts, after taking into consideration the adjustments requested by the Court, totalled 29.5 billion euros in provisions for charges, 7.2 billion euros in accrued expenses and 8.2 billion euros in non-financial debts.

II.138. Although, prior to the accounting reform, the central Government was already well aware of the amount of intervention expenses paid each year, it did not routinely estimate what its commitments were beyond a one-year period for the various existing intervention schemes, nor what it still owed at the end of the fiscal year.

II.139. As a result of the new rules of general accounting based on established rights, the Government is required to identify its commitments. In some cases, these commitments must result in the recognition of a liability, whether this is an accrued expense or a provision for charges. As a rule, an accrued expense is recorded when the Government knows with certainty that it will be required to make a disbursement during the fiscal year following the year in question. When this disbursement is only probable, but the underlying commitment is firm, the Government must record a provision for charges, the cause of which is the recognition of the rights of third parties against the Government, in accordance with the provisions of standard 2, which are the same as those of standard 12, and not the payment of funds.

II.140. The Court notes that the preparer of the accounts made very considerable efforts to identify the intervention liabilities, but that there are still uncertainties regarding the valuation of these liabilities in the accounts at 31 December 2006. These uncertainties stem from the fact that the administration did not have time to thoroughly review all the intervention measures that gave rise to the Government's commitments, as the Court had recommended in its previous reports on the accounts. They are also linked to the inadequacies of the information systems of the Government's operators who manage procedures and the difficulty in reconciling the accounts of these entities with those of the Government at year end.

II.141. During its audits, the Court noted, on the 2006 opening balance sheet, the difficulty in recording provisions for farming interventions carried out by the *Centre national pour l'aménagement des structures des exploitations agricoles* (CNASEA - National Centre for Farm Planning) (1.356 billion euros, 840 million of which consist of future annual payments of the Government's contribution to the retirement bonus, calculated on the basis of statistics), for employment subsidies managed by the same operator (1.174 billion euros), for the Government's commitments to *Réseau Ferré de France* (320 million euros), and for the Government's contribution to the salaried workers' unemployment scheme (276 million euros).

II.142. Corrections in very large amounts were made to the accounts as a result of the various quantified anomalies noted by the Court in this area. These corrections resulted in a decrease of 4.5 billion euros in the net position on the opening balance sheet and a decrease of 0.9 billion euros in the balance on transactions for the fiscal year. However, the Court's audit sample represented only about 20% of the intervention measures for which cash-limit appropriations were made under the initial budget act for 2006, while the liabilities to be identified go beyond the strict framework of the budget appropriations.

II.143. The Court also noted uncertainty regarding the valuation of the amounts entered. Provisions or accrued expenses were recorded for certain intervention measures; however, the exact estimate of these amounts could not be assured due to a lack of available information. The same is true for amounts that should be entered with respect to the Government's commitments to social landlords (building subsidies for social housing) which, according to internal documents, were estimated at 1.47 billion euros at 31 December 2005; these amounts could not be reconciled with those recorded as provisions or accrued expenses on the opening balance sheet.

II.144. In the farming interventions sector, the Court noted uncertainty regarding the amounts of the provisions for subsidised loans and subsidies paid by CNASEA on the basis of budget agreements (commitment authorisations). Work undertaken with this operator by the Ministry of Agriculture and Fishery and the ministerial budgetary and accounting controller should eventually make it possible to obtain reasonable assurance of the amount reported.

II.145. More generally, only through a thorough identification of the intervention measures, showing what led to the Government's commitments and the nature of its payments, will it be possible ensure a full accounting of the intervention liabilities.

II.146. This leads us to two findings, namely a limitation related to the inadequacies of the operators' information systems, and disagreement as to the amount of the intervention liabilities recorded on the opening and closing balance sheets.

II.147. The Finance Ministry is willing to consult with the standards committee in an effort to clarify the origin of the expense, and to encourage the managing ministries to analyse the main intervention procedures in order to pinpoint the origin of the Government's commitments that require the recognition of liabilities.

13 - The accounts of the public authorities

II.148. The accounts of the public authorities, including those of the National Assembly, the Senate, the President of the Republic and the Constitutional Council, are only partly included in the central Government's accounts. Moreover, the Court was unable to audit these accounts because of the principle of financial autonomy of the public authorities.

II.149. For several years, the *Parliamentary Assemblies*, which represent the bulk of the accounts of the public authorities, have chosen to draw up their accounts based closely on the general chart of accounts, but according to conventions that reflect their specific nature. The general application of ordinary accounting rules to the central Government as a whole, subject only to exceptions pertaining to the specific nature of government action, is inconsistent with this practice.

II.150. To bring the accounting approaches into line, the assemblies decided to develop a new framework that will make it possible to include their accounts in the central Government's general accounts. They also decided to implement a procedure whereby their 2007 accounts will be audited by a third-party entity. These two measures will be taken successively as part of agreements made by each Assembly in March 2007 with the *Conseil Supérieur de l'Ordre des Experts-Comptables* (French association of certified public accountants).

II.151. Upon completion of its work, the third-party entity, which will have complete autonomy for the purpose of conducting its audit, will submit to each of the assembly's special committees charged with verifying and auditing the accounts the conclusions of its audits, which the committees will then send to the Court.

II.152. Because of the time needed for this process, the assemblies' accounts will not be included in the central Government's accounts until fiscal year 2007; therefore, the Court of Accounts can only note that this is not possible for the 2006 accounts. It notes, however, that the special committees charged with verifying and auditing the accounts of both Assemblies have granted the treasurers of each chamber full discharge of their duties and have taken the necessary measures to publish the reports concerning the accounts of both assemblies prior to 1 June 2007, thereby adhering to the deadline set by the LOLF for filing the budget review bill.

II.153. Similar measures must be taken by the other public authorities.

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II.154. In addition to the principal observations presented above, the Court noted several other anomalies in the accounts which the administration was unwilling or unable to correct. These pertain in particular to relations between the central Government and the Social Security Administration, the calculation of various provisions (central Government subsidies for home ownership savings plans, tax disputes, disputes related to the application of Community law, etc.) and the procedure for depreciating non-tax claims. Details of these observations will be provided to the administrations and Parliament under the conditions set out in the Code of Financial Jurisdictions.