



AUDIT COURT OPINION ON THE STATE'S ANNUAL FINANCIAL REPORT 2010

May 2011

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**Audit Opinion on the State's Annual Financial Report issued
by the Cour des Comptes
- compilation and publication -**

Every year the *Cour des Comptes* [Audit Court] publishes an Audit Opinion on the State's Financial Report.

The Audit Opinion, which is appended to the draft budget settlement law for the preceding financial year together with the reports of the audits performed, expresses the Court's determinations as to the regularity, truth and correctness of the State's Financial Report. It does so by application of its constitutional mission to assist Parliament and the Government in overseeing the execution of the budget laws, and more specifically the provisions (paragraph 5 of article 58) of the Constitutional Bylaw on the Budget Acts.

Its purpose is, *inter alia*, to enlighten Parliament before it approves the State's financial reports.

The Court carries out its audit of the State's accounts with reference to the international audit standards set out by the International Federation of Accountants (IFAC). The auditing work is conducted by a unit to which the Court's seven chambers are associated.

Three fundamental principles govern the organisation and activities of the Court, which also apply to the audit of the State's Financial Report: independence, the right to reply and collegial responsibility.

The institutional *independence* of financial Courts and the statutory independence of their members guarantees that the work conducted and the conclusions drawn are free from external influence or interference.

The *right to reply* implies that the findings of the auditing work are systematically submitted to the officials from the government departments and bodies concerned; the positions adopted cannot be made final until the replies received are

considered and, where applicable, after hearing the officials concerned.

The members *acting as a bench* rule on how the work is to be conducted and concluded at the end of each phase up to publication.

Teams of experts and *rapporteurs* are entrusted with the task of carrying out the audits. Their reports are examined and discussed by a chamber or another unit acting as a bench, a member of which is a judge who is the *counter-rapporteur* in charge of overseeing the quality of the work. This also applies to the draft Audit Opinion on the State's Financial Report.

The draft Audit Opinion is then examined by the Committee for the Public Report and Programmes, comprising the first president, the prosecutor-general and the presidents of the chambers of the Court, one of whom acts as general *rapporteur*.

The draft is then submitted for approval to the Council Chamber sitting under the presidency of the first president in the presence of the prosecutor-general, the presidents of the chambers of the *Cour des Comptes*, the senior judges and the specially assigned senior judges.

The judges who, due to their present or past duties or for reasons of proper professional conduct, are required to abstain do not take part in the collegial proceedings whatever their nature.

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The Audit Court Opinion of the State's financial reports is available online from the Court's website (<http://www.ccomptes.fr>) and from other financial courts' websites.

It is distributed by *La Documentation Française*.

Deliberation

The Court, deliberating as Council Chamber, adopted the present Audit Opinion on the State's Financial Report for 2010.

It reached its position on the basis of the detailed draft statements of reasons and the audit reports that were previously submitted to the government departments together with the answers addressed by the latter to the Court.

The following persons took part in the deliberations: Mr. Migaud, first president, Mssrs. Picq, Babusiaux, Descheemaeker, Bayle, Ms. Froment-Meurice, Mssrs. Durrleman, Lévy, chamber presidents, Ms. Cornette, Mr. Hespel, active presidents of chambers, Mssrs. de Mourgues, Mayaud, Richard, Devaux, Rémond, Gillette, Duret, Ganser, Schneider, Troesch, Briet, Moreau, Frèches, Duchadeuil, Lefas, Brun-Buisson, Cazala, Alventosa, Lafaure, Frangialli, Dupuy, Ms. Morell, Mssrs. Gautier (Louis), Braunstein, Bernicot, Phéline, Ms.s Ratte, Ulmann, Mssrs. Barbé, Gautier (Jean), Vermeulen, Tournier, Bonin, Vachia, Ms. Moati, Mssrs. Cossin, Diricq, Lefebvre, de Virville, Ms. Aubin-Saulière, Mssrs. Sabbe, Ténier, Lair, Corbin, Rigaudiat, Ravier, de Gaulle, Piolé, Uguen, Mss. Briguet, Carrère-Gée, Gadriot-Renard, Mssrs. Martin (Claude), Le Méné, Urgin, Sépulchre, Arnauld d'Andilly, Mousson, Guérout, Ms. Vergnet, Mssrs. Chouvet, Viola, Ms. Démier, Mr. Machard, Ms. Cordier, Mssrs. Migus, Laboureix, Geoffroy, Lambert, Ms. Dardayrol, Mssrs. Guillot, Aulin, senior judges, Mssrs. Cadet, Cazenave, Klingler, Dubois, Gros, Marland, specially assigned senior judges.

The following people were also present:

- Mr. Bénard, prosecutor-general, who presented his observations, and Mr. Valleraud, advocate-general, who assisted him;
- Mssrs. Lefas, senior judge, responsible for auditing of the State's Financial Report, *rapporteur*, Vareille, *rapporteur*, and Zérah, expert.

Mr. Terrien, secretary-general, who provided for a secretariat for the Council Chamber.

Done at the Court, 19 May 2011.

The draft Audit Opinion submitted to the Council Chamber was prepared by the inter-chamber unit chaired by Mr. Babusiaux, the president of the chamber, whose members were Mss. Briguet, Seyvet (up to 14 December 2010), Trupin (starting on 1 December 2010), Vergnet, Messrs. Cazala (starting on 1 December 2010 and up to 4 April 2011), Houré (up to 6 May 2011), Johanet (up to 25 February 2011), Lefas, Lefebvre, Mayaud, Monier, de Mourgues, Piolé, Théron, Vermeulen, Viola (starting on 25 March 2011), senior judges. M. Vallernaud, advocate-general, representing the prosecutor-general.

The *rapporteurs* were:

- Mr. Lefas, senior judge, responsible for the Audit Opinion on the State's Financial Report;
- - Mr. Blondel, assistant judge, Mr. Varelle, *rapporteur*, Mr. Zérah, expert, who together drafted the summary reports.

The work which served as the foundation for the draft Audit Opinion the was performed by:

- the persons in charge of the cycles and sub-cycles : Mss. Briguet, Vergnet, Messrs. Lair, Lefas, Monier, Piolé, Vermeulen, Viola, senior judges ; Messrs. Blondel, Champomier, Sciacaluga, assistant judges; Messrs. Breuilly, Brouillet, Dussoubs, Teboul, auditors; Mss. Baillon, Bonmartel-Couloume, Butel, Girard-Reydet, Philbert, Mr. Varelle, *rapporteurs* ; Mr. Clappier, expert;
- the auditing teams: Mss. Assouline, Balaktchieva, Ballo, Chaudron, Daros-Plessis, Guély-Tonnerre, Roizen, Verdon, Milles Baboy, Borrel, Boukezia, Caisso, Coudesfeytes, Guglielmi, L'Hernault, Riberi, Vanden Driessche, Messrs. Alix, Astorg, Descolonges, Garnaud, Gelin, Lévy, Lompré, Mazzocchi, Poli, Vautier, Wiest, experts ; Mss. Aguillon, Février, Richer, Messrs. Beau, Bertrand, Doignon, Gagnepain, Marcou, Marie, Sarrazin, assistants;
- The *rapporteurs* for the accounting assessments reports that are compiled at the interim mission stage: Mr. Tournier, senior judge ; Messrs. Aulin, Tricaud, assistant judges; Ms. Baldacchino, Messrs. Bertoux, Breuilly, Brouillet, Imbert, Leger, Mory, auditors; Mss. Butel, Cléici, Planté, Messrs. Capini, Siret, *rapporteurs*; Mss. Barro, Février, Gandin, Mr. d'Inca Le Pann, assistants.

The counter-*rapporteurs* were Messrs. Houré (up to 15 April 2011) and Lefebvre (starting on 15 April 2011), senior judges.

Introduction

The Court's remit

Paragraph 5 of article 58 of the Constitutional Bylaw on Budget Acts (LOLF) dated 1 August 2001 assigns to the Court the remit of issuing an audit opinion on the regularity, truth and fairness of the State's financial reports. This permanent mandate is part of its role in assisting Parliament and the Government in overseeing the execution of the budget as set out in article 47-2 of the Constitution. The purpose of the Audit Opinion delivered by the Court is to enlighten the Parliament whose task it is, in compliance with section 3 of article 37 of the LOLF, to approve the State's financial reports. More broadly, it is also intended for all users of those reports.

The intention of lawmakers who passed the constitutional bylaws was to endow the state with instruments that would allow it to assess its financial position and assets, gain knowledge about its costs and better evaluate its results so as to enhance budget management and the performance of public policies. Obtaining an audit opinion from an external auditor, a process that is applied in only a limited number of countries around the world, is one of those instruments.

The State's Annual Financial Report and supporting documents

The annual accounts that are audited by the Court record the transactions carried out by the departments, establishments and institutions of the state that have no separate legal status. This scope of application includes the public authorities within the meaning of the Constitution (principally, the Parliamentary Assemblies, the Presidency of the Republic and the *Conseil Constitutionnel*) together with the subsidiary budgets, the commercial accounts and all the funds that have no independent legal status and are controlled by the state. As for entities that do have separate legal status, they are accounted for by means of a capital value that represents the interests held therein by the State.

The State's Annual Financial Report includes a balance-sheet (referred to as the statement of net worth), an income statement (comprising three parts: the statement of net burdens, the statement of net sovereign revenues and the balance of transactions for the financial period), the statement of cash flows and an appendix. The latter, which is an essential part of the financial statements, provides all the information needed to understand and interpret the reports. For instance, it includes an

evaluation of the State's contingent liabilities and some material relating to the sustainability of public finances such as the present value of net borrowing to cover the State's civil service retirement scheme and the special state-subsidised schemes as well as its current commitments under the adult disability allowance scheme and the housing aids funded by the state.

The introductory report appended to the draft budget settlement act describes significant events that took place in 2010 relating to the State's fulfilment of its missions and provides a summary analysis of its financial structure.

The report on the State's internal accounting control focuses on a description of the priority action that took place during the financial year to more effectively mitigate financial and accounting risks.

Finally, the financial communication document comprises four pages describing the main accounting events for the financial year.

Maintaining and compiling the accounts

Pursuant to article 30 of the LOLF, the State's general ledger account is kept in accordance with the accounting principles and rules that apply to undertakings, minimally adjusted for the specific features connected with the activity of the State. These rules and principles set out in the State's collected accounting standards, that was approved by decree dated 21 May 2004 and amended on 17 April 2007, 13 March 2008, 11 March 2009 and 8 February 2011 following the opinions of the Committee on Public Accounting Standards which, by application of article 115 of the amending budget act for 2008 dated 30 December 2008, was renamed the Council for the Standardisation of Public Accounts. No further modification of standards was made in 2010.

Pursuant to article 31 of the LOLF, public accountants are responsible for bookkeeping and compiling the State's accounts. In that capacity, they ensure that the principles and rules set out by the LOLF are applied, with a particular focus on assuring the truth of the accounting records. This requirement of accounting quality, which applies to the whole administration—authorising officers and accountants—has not yet been wholly achieved. Compliance requires the implementation of an internal control and audit process that is efficient and effective and the presentation of financial statements that are regularly produced, true and fair and do not contain any material misstatements, whether the latter are the result of errors, omissions or fraud. Meeting the LOLF requirement includes the choice and application of appropriate accounting methods

along with the production of reasonable accounting estimates based on the relevant circumstances.

The State's Annual Financial Report for 2010 was prepared under the responsibility of the State accounts centralising accountants. It was closed by the Minister for Budget, Public Accounts, Civil Service and the Reform of the State on 17 May 2011. It is attached to the draft financial report settlement law and to the management report for 2010, together with this Audit Opinion.

It was compiled taking into account the events that occurred after year-end when these are liable to give rise to significant adjustments to the financial statements or to appended information.

The subject matter of the Audit Opinion

An Audit Opinion is a written, reasoned opinion formulated by an independent body, under its own responsibility, about an entity's accounts. It consists in collecting the material required to achieve reasonable assurance as to the conformity of the financial statements, in all of their material aspects, to a set of rules and principles.

The Court carries out its audits within the framework of the provisions of the financial law standards laid out by the International Federation of Accountants (IFAC). It subjects its quality-control system in the area of certification to the requirements of standard ISQC1.

Complying with international audit standards implies using audit criteria pertaining to transaction flows, end-of-period account balances and the layout and content of the financial statements. They provide that an unqualified opinion can only be issued if no material difficulties are identified. These difficulties fall into one of two categories:

- a disagreement with the preparer of the accounts relating to issues such as the acceptability of the accounting methods chosen, the way they are applied or the relevance of the information provided on financial statements, and to uncertainties the incidence of which is challenged;
- a limitation in the scope of the audit when an element beyond the control of the Audit Court has prevented the latter from performing the checks it considered necessary.

If difficulties of this type are identified, the outcome is a Qualified Opinion, an Adverse Opinion or a Disclaimer.

The Court forms its professional judgement taking into consideration the intensity and number of these difficulties. It finalises its position operating as the Council Chamber acting in accordance with the principle of collegiality.

The implications of the auditing work in 2010

Since 2006 when an Audit Opinion on the State's Financial Report was given for the first time, the Court has adopted a supportive approach to the gradual implementation of the accounting reforms. This approach has led to 10 qualifications being lifted in four years. The detailed reasons underlying the Court's position enable users of the financial statements to identify the areas where progress must be made by the administration so as to gradually achieve an Unqualified Opinion.

Following the fifth financial year subject to an Audit Opinion, real progress has been achieved in the way in which general ledger accounts are maintained on an accrual basis, resulting in a vision of the State's assets and financial position that is more relevant, comprehensible, comparable to the two previous years and verifiable.

In 2010, further progress was achieved by the administrations in identifying accounting risks and in the approach designed to more effectively mitigate them.

However, a number of major events marked the financial year—reorganisation of local government, the general review of public policies and the gradual rollout of the integrated management package *Chorus*. The administration's resources were concentrated on the adjustments arising from these reforms. Against this backdrop, some of the work designed to make accounts more reliable was disrupted, sometimes significantly, and the network of local correspondents for internal accounting audits was destabilized.

The Court met contrasting situations. Reliability has continued to improve for some financial aggregates while others have either not improved sufficiently or stagnated in terms of accounting quality requirements.

The major challenge today is to gain mastery of *Chorus*, the successful migration of general ledger accounting into *Chorus* on 1 January 2012 and quickly enhancing the reliability of the various data that flow into it. If this were not achieved, *Chorus* would be just a further version of the *Accord* and *palier LOLF* applications incapable of implementing the provisions in the LOLF.

I - Opinion of the Court on the State's accounts for 2010

1. Following the audits described in the report attached to this Opinion, the Court considers that it has collected the evidence required to substantiate its position on the accounts for financial year 2010.

2. The Court lifts two qualifications in their entirety, one of which was a substantive one, directed at the 2009 accounts.

3. Furthermore, some of the constitutive elements of 4 substantive qualifications on the 2009 accounts have been satisfactorily resolved.

4. The Court is of the opinion that on the basis of the accounting rules and principles applicable thereto, the State's Annual Financial Report for the year ended on 31 December 2010 and settled on 17 May 2011 is regular and truthful and accurately reflects the State's financial position and assets, subject to the seven substantive qualifications itemised in part II.

Complete and partial lifting of qualifications directed at the 2009 accounts

5. On 31 December 2010, the Court lifts two qualifications, one of which was substantive, that it had directed at the State's accounts for 2009 relating to:

- *Caisse d'amortissement de la dette publique* (Social Debt Redemption Fund);
- the other fixed assets and inventory of the civilian ministries.

6. Four substantive qualifications on the State's 2009 accounts have been partially met, in respect of:

- the qualification concerning the identification and valuation of state-controlled agencies, the method for establishing the list thereof;
- the qualification concerning the intervention expenses and liabilities, the State's liabilities with respect to *Réseau Ferré de France* [French railway network], the State's liabilities under the adult disability allowance scheme (AAH) and the housing aids, failure to incorporate the National Housing Aid Fund (FNAL) and the National Fund for Active Solidarity (FNSA) into the State's accounts, the social contribution exemptions on

overtime, the financial information presented in the appendices to the financial reports;

- the qualification on the Ministry of Defence's assets, the capitalisation threshold chosen by the Ministry;
- the qualification pertaining to the State's real estate assets, the reserves for asbestos removal.

Qualifications directed at the accounts for 2010

7. Two qualifications (No. 1 and No. 2) are crosscutting and apply to the State's accounts as a whole. One qualification (No. 4) concerns the State's financial fixed assets. Two qualifications (No. 5 and No. 7) concern its tangible fixed assets and its inventory. Two resolutions (No. 3 and No. 6) relate to the revenue, expenses and liabilities arising from the State's ordinary activity.

Qualification No. 1: the features of the State's financial and accounting information systems impose an overall limitation on the scope of the Court's audits for financial year 2010. There are still a great many uncertainties as to whether all the concerns expressed by the Court since 2006 during the State's accounts auditing processes are being properly accommodated in the State's new IT tools.

Qualification No. 2: additional improvements have been observed both as regards the gradual rollout of the ministerial schemes for internal control and in the structure of internal audits, but the ministries are still not in a position to make a sufficiently substantiated assessment as to the extent of their control over accounting and financial risks.

Qualification No. 3: under most taxation schemes, the conditions required to maintain accounting records of sovereign revenues on an accrual basis and ensure their auditability have not been met yet.

Qualification No. 4: there are some significant uncertainties pertaining to the valuation, in the State's 2010 accounts, of its agencies and of some of its other fixed financial assets, as well as about whether the latter have been exhaustively identified.

Qualification No. 5: following the three-year active campaign implemented by the Ministry of Defence and Veterans to enhance reliability, there are still material uncertainties as to the exhaustiveness and valuation of the Ministry's assets in the State's accounts.

Qualification No. 6: a series of disagreements and uncertainties persist as to the exhaustiveness of expenses and liabilities recognized by

the State into its accounts in performance of its mission as the economic and social regulator.

Qualification No. 7: the identification and valuation of the State's real estate assets continues to suffer from material uncertainties.

Other audits

8. After examining the information provided in the introductory report, the report on internal control, and in the 4-page financial summary, and to ensure that the latter match data in the State's Annual Financial Report, the Court finds that:

- the material mismatches in the first document have been corrected;
- the second document contains no material misstatements;
- that the third document contains no misstatements.

II - Detailed reasons for positions adopted

A - Lifting of qualifications directed at the 2009 reports

1 - The *Caisse d'amortissement de la dette sociale* (CADES - Social Debt Redemption Fund)

9. On 31 December 2011, the Court lifts the substantive qualification it formulated in 2009 concerning the accounting records for CADES as a non-controlled entity.

10. Following the exchanges under the right to reply relating to the Audit Opinion on the 2009 accounts, the Minister in charge of the Budget and Public Accounts recognised that placing CADES outside of the scope connected with Social Security and outside the scope of state control led to a misstatement that needed to be corrected.

11. In accordance with the commitments the Minister consequently undertook, Constitutional Bylaw No. 2010-1380 dated 13 November 2010 on the management of the social debt links CADES to the social insurance realm by bringing this state-run public body under the purview of budget acts relating to social insurance, and by establishing "*a statement of assets*". This is the new document appended to those acts, which, for the first time in 2011 but in relation to financial year 2010, will post the position for all of the assets and liabilities of the entities within this realm including CADES. Finally, as a result of some provisions being reclassified by the Constitutional Court into ordinary law, the composition of the Board of Directors has been modified and now comprises a majority of representatives from social insurance bodies.

12. On 31 December 2010 these provisions concerning the appointment and operation of the new Board of Directors of CADES had not yet been effectively implemented. The latter's annual accounts were approved on 28 April 2011 by the former Board of Directors representing only the State, but with the attendance and participation in the proceedings of the newly selected members selected. Decree No. 2011-458 dated 26 April 2011 relating to the composition of the CADES Board of Directors was published in the Official Journal. The President of the Republic's decree appointing the president of CADES and the decree issued by the Minister in charge of Social Security listing the new composition of the Board of Directors were published on 11 May 2011.

13. By application of the collected accounting standards, the preparer of the accounts should have corrected an error by recording the change in the status of CADES which has moved from being a state-controlled entity to a non-controlled entity and should have *pro forma* reprocessed these State's accounts from 2008 and 2009 accordingly. As a result of those entries, it would have become apparent that the net value of controlled interests was not €102 billion and €107 billion respectively in 2008 and 2009, but rather respectively €22 billion and €15 billion, hence reflecting the risk incurred by the Central Government as a result of its control over CADES since its net worth was negative (€-90 billion on 31 December 2009). In 2010, all other things being equal, the value of the State's financial assets would have increased, by €73 billion in terms of net worth and by €19 billion in terms of income.

14. However, the appendix to the State's Annual Financial Report explains the legal provisions and regulations adopted.

15. Consequently, the Court is in a position to lift its qualification and the disagreement from which it arose.

2 - Fixed assets and inventory of civilian ministries

16. On December 31, 2010, the Court lifts the qualification it formulated in 2008 in relation to the other fixed assets and inventory of the civilian ministries.

17. Following the incorporation in 2010 of the main hydraulic energy concessions into the State's accounts for a value of €45 billion—in accordance with the commitment undertaken when the qualification relating to the 2008 accounts concerning public service concessions was lifted—the administration undertook to complete, by 2011, the incorporation of all other concessions of this type into the accounts, of which the unaccounted share in the State's accounts is estimated to be €18 billion (replacement value as new).

18. The administration also undertook to enhance the reliability of figures provided for non-recurring civil engineering works at 31 December 2010 (€4.5 million).

19. The audits conducted on the 2010 accounts showed, on the basis of the criteria for control as set out in the State's accounting standards, that there is an uncertainty about the manner in which the electric power transmission concession granted to *Réseau de transport d'électricité* (RTE), a 100% subsidiary of *Electricité de France* (EDF) by means of law No. 2000-108, amended on 10 February 2000 has been recognised. However, the administration has undertaken to clarify the

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asset status of the electric power transmission network which represents about €19 billion in historic costs in the books of RTE.

20. The work conducted by the administration for the purpose of reconciling the accounting data and the electronic inventory files for all of the ministries which are aggregated in a dedicated application called CISIS has been completed. There is no longer any material mismatch in this area as between inventory data and the balances in the general ledger account.

21. In the subsidiary budget for civil aviation, the data relating to fixed assets have been satisfactorily reconciled with the relevant subsidiary account, thereby removing the uncertainty found in the 2009 accounts.

22. The preparer of the accounts has undertaken to ensure that the appropriate conclusions are drawn from an inter-ministerial audit performed in 2011 so as to remove a continuing uncertainty about the evaluation of software applications produced by the Central Government internally. On 31 December 2010, their value was estimated to be €1.04 billion in the ministries where the value of these assets is concentrated. In this area, he will be ensuring that the plan of action of the Ministry for the Economy, Finance and Industry and the Ministry for the Budget, Public Accounts, the Civil Service and Reform of the State will be properly implemented. He will be reminding the other contributing ministries concerned (Interior, Overseas, Local Government and Immigration; Ecology, Sustainable Development, Transportation and Housing; Education, Youth and Advocacy) of the applicable internal control rules.

B - Partial lifting of qualifications directed at the 2009 accounts

23. At 31 December 2010, the Court finds that difficulties pertaining to some of the elements involved in certain qualifications formulated in respect of the State's accounts for 2009 have been solved.

Procedures for establishing the list of agencies (part of Qualification No. 3 in respect of the 2009 accounts, that became Qualification No. 4 in 2010)

24. Under Qualification No. 3 relating to the State's accounts for 2009, the Court had found that the procedures for establishing the list of agencies were not able to assure that their identification complied with the provisions of accounting standard Number 7.

25. Following alterations in scope implemented by the administration, the ascertained inconsistencies between the list of agencies in the State's accounts at 31 December 2010 and the list of entities appended to the draft budget act for 2011 are no longer material.

The State's commitments in respect of *Réseau Ferré de France* (part of Qualification No. 4 pertaining to the 2009 accounts, that became Qualification No. 6 in relation to 2010 accounts)

26. Under Qualification No. 4 pertaining to the State's accounts for 2009, the Court had noted that the state's commitments towards RFF were incompletely posted. Indeed, although at year-end the State had a multi-annual commitment together with a reliable estimate of the associated items of expenditure needed to extinguish this commitment up to 2011, the State's accounts for 2009 record only the commitments for the following financial year thereby undervaluing the government intervention liabilities by the amount of €2 billion.

27. In 2010, the administration entered an allowance for a State commitment giving rise to a payment in 2011.

28. The positions of the administration and of the Court yield an identical balance for reserves at 31 December 2010 and there is therefore no disagreement on this amount at that date.

29. In the coming financial year, the Court will assess the range of the State's commitments beyond 2011 and their incidence on the value of the State's interest in RFF.

The State's commitments under the adult disability allowance scheme (AAH) and housing aids (an element in Qualification No. 4 for the 2009 accounts that became Qualification No. 6 in those for 2010)

30. Qualification No. 4 pertaining to the State's 2009 accounts noted a disagreement concerning failure to provision against the State's commitments in respect of beneficiaries of the adult disability allowance (AAH) and of housing aids.

31. At year-end, the State has a commitment towards the beneficiaries of the AAH over a period of allocation as notified by the Commission for Human Rights and Autonomy of Disabled Persons (CDAPH). Similarly, the State has a commitment towards the beneficiaries of housing aids for as long as the eligibility conditions are met.

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32. Periodic means testing, which is a straightforward administrative act that has no limiting effect on the State's legal commitment, sometimes leads to the commitment being extinguished. This possibility must be taken on board when evaluating the reserve. However, this is not a feature specific to these schemes that calls for a different accounting process to those applied to other comparable intervention schemes which are provisioned against in the State's accounts (subsidised employment contracts handled by the Services and Payment Department, student grants managed by the CROUS, building subsidies, the special solidarity allowance and the retirement equivalent allowance handled by job centre, etc.).

33. The State grants these allowances to the beneficiaries without anticipating an at least equivalent counterpart. Furthermore, considering the legislation in force on the date of settlement of accounts, it is probable that an item of expenditure will be required to extinguish the liability.

34. At 31 December 2009, the information with which the Court was acquainted with at the time had led it to consider that the valuation of future items of expenditure in respect of these schemes was sufficiently reliable.

35. The in-depth checks that the Court considered essential to conduct in 2010 did not produce a reasonable assurance that the quality of the data (in particular the duration of allocation for the AAH and the exit date for the beneficiaries of both the AAH and housing aids) available in the applications relating to family benefits needed to achieve a reliable assessment of the State's commitments.

36. Indeed, results of the evaluations showed up a number of inconsistencies. For instance, some periods of allocation for the adult disability allowance appear as being in excess of 10 years whereas the allowance cannot be granted for a duration in excess of 10 years without being renewed.

37. In the area of housing aids, in addition to these inconsistencies, a number of settlement errors were noticed by the Court's *rapporteurs* while engaged in the auditing work on the family benefits accounts for financial year 2010.

38. The accounting standards explicitly set out that it is appropriate to append explanatory information when the assessment of the corresponding reserve is not reliable. This information need not reach the same standard of reliability.

39. The administration undertook to liaise with the CNAF so as to identify the root of the misstatement noticed by the Court in the databases

relating to family benefits and to implement appropriate measures to enhance reliability. The CNAF notified its willingness to do so.

40. In the interim before that level of reliability is reached, which in the Court's opinion will allow the State's multi-annual commitments in respect of the beneficiaries of the AAH and of housing aids to be entered as a liability in the balance sheet, special information is appended pursuant to the regulations applying to contingency reserves. It is based on an estimation made by the Court with the help of an actuarial firm.

Failure to incorporate the FNAL and the FNSA into the State's accounts (element in Qualification No. 4 pertaining to the 2009 accounts, that becomes Qualification No. 6 in 2010)

41. Although the National Housing Aid Fund (FNAL) and the National Active Solidarity Fund (FNSA) do not have legal status independent from the State, they were not included in the scope of the State's accounts for 2009.

42. While the preparer of the accounts was willing to include the FNSA in the State's accounts for 2010, a disagreement persisted for the FNAL. In 2010, the preparer fulfilled his commitment to examine the accounting process applicable to the FNAL and accepted the Court's approach.

43. As a result of the incorporation of both these funds into the State's accounts for 2010, the disagreement disappears.

Social contribution exemptions on overtime (element in Qualification No. 4 for the 2009 accounts, that becomes Qualification No. 6 in 2010)

44. In its Audit Opinion for the State's accounts in 2009, the Court noted that article 9 of the 2008 Amending Budget Act dated 30 December 2008 required the State, in contradiction with accounting principles, to enter an accrued expense mirroring the accrued revenue recorded in the ACOSS accounts whereas the social contributions levied on profits and allocated to financially offset the contribution exemptions on overtime work similarly to all other allocated taxes and duties were handled as third-party accounts.

45. The preparer of the accounts adduces the binding nature of the law. In any case, there are no grounds for maintaining the disagreement ascertained in the accounts for financial year 2009. Indeed, the accrued expense entered into the books at year-end (€293 billion at 31 December 2009 and €256 million on 31 December 2010) produces an offsetting item for an identical amount at the beginning of the next financial year and

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does not give rise to any disbursement because allocated taxes and duties collected by the State on behalf of social insurance bodies are handled as third-party accounts.

The financial information appended to the accounts (element in Qualification No. 4 pertaining to the 2009 accounts, that becomes Qualification No. 6 in 2010)

46. According to accounting standards, the methods of calculation, distribution by category and the scheduling of significant reserves must be described in an appendix.

47. These requirements were only partially applied in the 2009 State accounts and only to a limited number of cases.

48. In the State's accounts for 2010 the information provided is satisfactory for all the significant reserves thereby removing the disagreement.

The Ministry of Defence's capitalisation threshold (element in Qualification No. 5 pertaining to the accounts for 2009 and 2010)

49. Under Qualification No. 5 pertaining to the State's accounts for 2009, the Court had noted that the capitalisation threshold set out in 2009 at €10,000 had led to a situation where the value of the fixed assets of the Ministry of Defence was significantly reduced (in the proportion of €2.7 billion in gross value and €2.2 billion in net value).

50. This threshold was equivalent to the one applied to the assets of civilian ministries (with the exception of transportation equipment), but did not, according to the Court, take into account the specific features of armament equipment.

51. In the coming financial years, the use of *Chorus* to account for tangible assets will open up the possibility for all ministries to bring down the capitalisation threshold. As a result, the specific disagreement with the Ministry of Defence is removed.

Reserves for asbestos removal (element in Qualification No. 7 pertaining to the accounts for 2009 and 2010)

52. Failure to provide appropriate supporting documents timely prevented the Court from determining with reasonable assurance that the reserves for asbestos removal had been exhaustively and correctly valued in the accounts at 31 December 2009 for all of the ministerial departments involved.

53. The material necessary for the Court to conduct its audits was provided at 31 December 2010, leading to a finding of no outstanding uncertainty at that date.

C - Substantive Qualifications on the State's accounts for 2010

54. The qualifications presented below report a series of disagreements relating to requests for modifications of figures appearing in the accounts and to uncertainties and limitations, the financial impact of which is by definition undetermined.

55. These proposals to alter figures as formulated by the Court would have produced the following effects :

- improvement of the net balance of transactions for the financial year by €1.8 billion;
- deterioration of the State's net worth at 31 December 2010 by an additional €12.8 billion;
- a number of reclassifications in the balance-sheet (€0.5 billion in absolute value) and the income statement (€0.1 billion in absolute value).

56. The uncertainties and limitations that persist still affect a very large number of items on the financial statements. Their incidence may be even greater.

57. Each qualification is laid out as follows:

- boxed text that summarises the findings under the qualification concerned
- shaded paragraphs that present the main findings in relation to audit points;
- non-shaded paragraphs that provide further details about these findings.

1 - The State's financial and accounting information systems

58. The Court renews a substantive qualification about the State's financial and accounting information systems.

59. The features of these systems are such that they continue to place an overall limitation on the scope of the Courts audits and lead to uncertainties about the quality of the book entries supported by these information systems.

60. The findings in 2010 reflect an overall deterioration, no doubt in part due to the conditions under which *Chorus* is being rolled out. Many uncertainties persist as to whether the concerns of the Court expressed since 2006 in the course of its auditing procedures have been taken on board.

61. Without underestimating the difficulty involved in preparing the migration of the general accounts into *Chorus* on 1 January 2012, it is nonetheless essential to respond to those findings so as to avoid undermining the quality of the State's general accounts that will be maintained by this package in less than one year.

62. Under *Chorus*, the budget commitment account will become a subsidiary account in the general ledger account and so it is essential for consumption of the commitment authority to be previously recorded whenever an accrued expense is entered into the general ledger account.

Insufficiently integrated information systems

63. The audit trail between the general ledger accounting application (CGL) and the applications flowing into it, i.e. the ability to trace back trial balances in the general account to the original individual transactions and vice versa, is by no means guaranteed throughout.

64. In the interim, while waiting for *Chorus* to be fully deployed, the work done by the administration in respect of the accounting trail has not led to any material change being ascertained in 2010. Various applications such as CEP, that is dedicated to maintaining the deposit accounts of Treasury correspondents, do not always offer an adequate audit trail.

65. In 2010, the preparer of the accounts was compelled to enter manual adjustments into the general ledger (CGL) to correct misstatements that arose from entries that come from *Chorus*. This

adversely affected the auditors' capacity to trace the source administrative events.

66. By way of example, the current process for recognising these so-called "accrued expenses" entries coming from *Chorus* in the general ledger account (CGL) does not provide an assurance of exhaustiveness at closing. In this way, accrued expenses for the amount of €1 billion were not automatically recognised in CGL. Although manual entries were made to overcome this misstatement, the audit trail is no longer guaranteed.

67. The weaknesses of the links between applications restrict the potential for corroborating accounting data and sometimes reveal inconsistencies.

68. The ERICA application allows for monitoring and calculations of allowances for tax related disputes. It continues to be impossible to reconcile the data relating to the outcome of disputes handled by this application with the amounts entered into CGL. As a result, the Court's capacity to audit those amounts is hindered.

69. Just as in 2009, and in spite of the fact that they relate to shared information, the taxpayer bases are not shared between the information systems used by the networks in the General Directorate for Public Finances and those of the General Directorate for Customs and Excise. As a result, the evaluation of reserves for bad debt fails to make use of improved knowledge about risks of non-collection identified in both these networks.

70. On a routine basis, the State's non-centralising accountant stations record the positions of local governments and local public bodies (CEPLs) in the general accounts on the basis of the information available in the *Helios* programme. The accounting process consists in manually re-entering the aggregate balances by category of local entity as they appear in *Helios* into the general ledger accounting applications (DDR3, CGL). As a result of using these methods to centralise CEPL cash transactions in the State's accounts, no audit trail is created which restricts the scope of the auditors' checks.

71. Furthermore, the *Helios* programme does not yield sufficiently reliable accounting reports, in particular in the form of electronic data. The tool's original functions do not include the capability to produce a file that traces back the final position of the CEPLs' cash accounts at year-end. An electronic data extraction of CEPLs' cash balances that appear in *Helios* was produced for the first time on

31 December 2010 at the Court's request. It shows up a discrepancy of €1.2 billion compared to the cash balances recorded on the State's balance sheet on the same date. On a national scale, the subsidiary budget flows (*Helios*) cannot be reconciled with those of the general ledger (CGL), and the management events entered into those subsidiary budgets cannot be monitored starting from an entry in the State's Annual Financial Report.

Unsuitability of the software applications for maintaining general accounts

72. The design of these applications is such that a large number of accounting items of different types are recorded which restricts the Court's ability to audit the file from which the Annual Financial Report is extracted.

73. At 31 December 2010, this file contained more than 36 million entries. Rolling out *Chorus* as ancillary expenditure application has not reduced this volume which is due to the large number of entries that come in through linked accounts between Treasury accountants. On the contrary, these entries now account for 70% of the flows recorded. On the one hand, they have no impact on the account balances and should not appear in the file given to the Court. On the other, they cannot be adequately distinguished from those that the Court's audits should focus on for the purpose of validating the financial statements.

74. The negative entries among the 2.1 million manual entries recorded into the general ledger application (CGL) for the fiscal year 2010 alone cannot be linked to those that they cancel. As a result, the Court's audit teams are engaged in audit tasks that are incompatible with the timeline they are allocated to carry out those operations.

75. This limitation is aggravated by the functional limitations of the main inflow applications.

76. Neither the Ministry of Defence's information systems nor the MEDOC application for handling sovereign revenues are designed to meet the requirements for maintaining accrual-based accounts as set out in article 30 of LOLF.

77. Due to these functional limitations, many manual and automatic adjustments have to be implemented generating errors. Traceability of the controls to which those adjustments are

subjected is either weak or inexistent and the Court is therefore unable to assess whether all these errors have been corrected.

78. The absence of an exploitable ancillary accounting system prevents the Court from determining the exhaustiveness of the State's non-financial debt vis-à-vis third parties (suppliers, social insurance bodies, local governments, etc.), which at 31 December 2010 stood at €21 billion.

79. Since 2006, and once more at 31 December 2010, the absence of third-party accounting places a major limitation on the scope of the Audit Court's verifications on the State's Annual Financial Report. The Court therefore cannot make use of requests for confirmation sent out to creditors, which are generally considered to be the most probative audit technique.

80. The absence of a single third party base and the persistence of former practices that do not record commitments towards third parties until time of payment, despite the fact that LOLF requires the commitment authority to be consumed as soon as the legal obligation arises, makes it necessary at year-end to resort to a largely manual inventory of revenues and expenses to be accrued that year. As a result, there is no way to reliably identify the creditors and debtors concerned.

81. The situation is made worse by the weakness of the suppliers' database in *Chorus* (in particular, double counting).

82. Furthermore, the procedure for settling the *Chorus* subsidiary accounts is not in compliance with the principles of accrual accounting. In 2010, *Chorus* carried the budget and accounting information for more than 50 programmes within the meaning of the LOLF out of the 130 programmes in the State budget. Owing to the requirements of budgeting, the State is not entitled to commit expenditure beyond the budget settlement date, which for 2010 was 12 January 2011.

83. However, some expenditures incurred in financial year 2010 were accounted for subsequent to 12 January 2011 in *Chorus*. To avoid interfering with the presentation of the budget, the application in this case does not allow for certain State expenditures to be automatically accrued in the appropriate accounting year. As a result some of the accrued expenses for 2010 were manually posted from of an analysis of *ad hoc* computerised reports and a non-accounting census.

84. The design of the real estate asset management module in *Chorus* and the quality of the link that connects it to the accounting module are enough in themselves to cast uncertainty on the valuation of these assets in the State's accounts.

85. During the complete migration of the State's real estate assets to *Chorus*, the data which came from applications of uneven quality, could only be incorporated by neutralising the data input and consistency checks in spite of these functions being native to *Chorus*.

86. Whereas in 2009, the Court concentrated on the uncertainties arising from the methods for migrating the data, with hindsight it has appeared that the design choices that were made cast uncertainty on all of the processes for handling real estate assets. This applies equally to "measuring" and the various automatic processing tasks performed by the module that revalues assets not assessed during the year and computes the revaluation surplus recorded in net worth.

87. Additionally, these choices have restricted the Court's ability to ensure that only the assets eligible to appear are correctly posted in the State's accounts.

88. The Court is unable to ensure, within reasonable time, that the many manual checks implemented by the administration to make up for the inability of some tools are effective in guaranteeing the correctness of the data to which they are applied.

89. The number of accounting schemas used in 2010 is still more than 10,000. Their instability from one financial year to the next, the dearth of adequate supporting documents and the absence of suitable control tools prevent the Court from ascertaining either their consistency or the exact match between the accounts and the sum of the entries that should flow into them.

90. The India LOLF info centre, which offers all the players involved in expenditure, accounting and more broadly in public funding the information they need for decision-making, has been improved for the benefit of users in many respects but does not meet the needs of the Court. The info centre and the accounting reports from *Chorus* have not been stabilised and therefore do not yet meet the requirements of State Financial Report auditing.

91. The accounting procedures for certain sovereign revenues (booking on the one hand, calculation and appropriation of taxes, on the other), which by their very nature are highly complex, are

cascaded during the process of accounting information production in a way that prevents users from compiling interim accounting statements that would permit the outcomes of these procedures to be individually checked.

92. The circumstances under which many budget programmes were migrated to *Chorus* and failure to fully utilise the latter's accounting functions in 2010 constitute a major risk of compromising its capacity to maintain the State's general accounts in 2012.

93. Many programmes experienced serious anomalies when they were migrated to *Chorus* in 2010 in the area of automatic recognition of legal commitments that were traced by the former applications. These anomalies, which the preparers attempted to correct by manual inputs and corrections, adversely affected the quality of the accounts and placed a limitation on the scope of the audit work performed on the flows that were migrated.

94. In an unacceptably large number of cases, *Chorus* does not guarantee that a legal obligation is recorded by the relevant official as soon as it comes into existence. This shortcoming in the method for recording the State's commitments vis-à-vis third parties undermines the reliability of the recognition processes for accrued revenue and expenses in the general account and prevents them from being automated.

95. The choice of a package such as *Chorus* that requires the same source event for a legal commitment vis-à-vis a third party to be used both for general ledger accounting and for budgeting has consequences that require further assessment.

Weaknesses in the process for drafting the appendix

96. The process for drafting the financial information in the appendix is not sufficiently secure or auditable, in particular as a result of failure to rely on suitable information systems.

97. Although some significant parts of the appendix were provided in advance by the preparer of the accounts, the Court had only three full days to conduct its audits on the full set of appended notes, in spite of the fact that the latter are a crucial element in the financial statements. Following this scrutiny, the Court noted, as it has done every year since 2006, that a great many errors affect the document as a whole only some of which were corrected by the preparer of the accounts.

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98. Furthermore, some of the information could not be validated by the Court due to the insufficient supporting documentation or because of the significant share of non-accounting adjustments that is required by the information systems currently in use.

99. The appended financial information relating to the 2008 and 2009 Annual Financial Reports that was reprocessed *pro forma* is also difficult to audit because of the still considerable number of error corrections applied for the financial year and the unsuitability in this respect of the information systems currently used.

100. As a result, the scope of the audit was restricted and uncertainty arises as to the reliability of the current process for compiling appended financial information.

101. Owing to those same information systems, several topics are insufficiently or inadequately detailed for the purposes of correctly enlightening the users of the financial statements.

102. The upward and downward movements of the gross value of tangible fixed assets referred to in Note No. 2 in the appendix do not match the corresponding accounting flows.

103. In Note No. 23 in the appendix relating to write-off, allowances and depreciation, the contributions and reversals for the financial year are not consistent with the movements (increase and decrease) that appear in the notes relating to the relevant balance-sheet items.

104. The appendix does not mention the amount of outstanding capital owed on the Debt Reduction and Development Contracts. Furthermore, it does not specify the comprehensive cost of subsidised loans granted to foreign states or to French intermediaries.

2 - Ministerial schemes for internal control and internal audit

105. At 31 December 2010, the Court renews a substantive qualification relating to inadequate effectiveness and efficiency of the ministerial schemes for internal control and internal audit.

106. Improvements were once again observed for the financial year both as to the gradual deployment of the ministerial schemes for internal control and the structure of internal auditing, but the ministries are still unable to provide a sufficiently substantiated assessment of the extent to which they are able to mitigate accounting and financial risks as assessed through the Court's verifications.

107. Internal control of accounting is the set of organised, formalised, permanent schemes or processes chosen by management and implemented by supervisors at all levels to oversee the conduct of their activities with a view to providing a reasonable assurance as to the regularity, truth and correctness of accounting records in relation to the events they describe ("faithful reflection"). A risk assessment must serve as the basis for the implementation of actions designed to mitigate those risks.

108. Internal auditing, which provides an independent assessment of internal control, should contribute to providing the ministries with the assurance of the effectiveness and efficiency of the procedures for mitigating risks .

109. The pre-requisite for lifting the qualification formulated repeatedly by the Court since 2006 is that the ministries' Secretaries-General are able to make an assurance, by means of a letter of assertion or by any other equivalent means, on the effectiveness and efficiency of these schemes for mitigating accounting risks that fall within their respective areas of responsibility. This assurance must necessarily rely on work that enables the Court to acquire appropriate and sufficient evidence to make a determination.

110. On 31 December 2010, this was not the case.

Ministerial internal control

111. In 2010, further progress was achieved with the ministerial approach to risk identification and mitigation.

112. All of the ministries now have an oversight structure for internal accounting control attached to the Secretary-General that

is regularly operational apart from two notable exceptions (National Education, Higher Education and Research). However, many ministries (National Education, Higher Education and Research, Agriculture) are lacking in sufficient resources to fully deploy their central oversight function beyond the confines of central administration.

113. Apart from two exceptions (National Education, Higher Education and Research), the ministries have updated their risk maps.

114. The scope of application for the identification of risks has been extended to include new players and new processes in 2010 (Ministries of Finance, Environment, Labour).

115. The ministries have called on various sources including the work of ministerial budgetary and accounting controllers, the conclusions of the Court, those of the internal audit and the data on the effectiveness and the outcome of the controls when they exist.

116. Many ministries (including the Ministries for Finance and the Justice Ministry) have concentrated on enhancing the readability and strategic relevance of the ministerial action plans as a means for overseeing activity.

117. Overall, the relevance and quality of the actions within the ministerial action plans targeted at the locally-based services have improved.

118. The linkage between the risk maps and the action plan is satisfactory in almost all the ministries.

119. However, this first stage in deployment has yet to reach the right balance.

120. Some ministries' risk maps (Justice, Higher Education and Research) are not comprehensive, and the involvement of the locally-based services is sometimes not sufficient (Agriculture, National Education, Justice).

121. The local dimension of the ministerial action plans is still of uneven quality and the actions implemented by the locally-based services are not always consistent with the guidelines of the central administration, particularly in the cases of the Ministry for the Interior and the Ministry for the Environment.

122. The network of local correspondents was significantly impacted by the reform of local government administration, the

general review of public policies and the deployment of *Chorus*. In a rapidly changing administrative and financial environment, the number, the role, position and resources of these correspondents should, on the contrary, be built up.

123. In this context, more intensive support provided the accounting quality taskforces, within the network of the General Directorate of Public Funds, was useful but did not do much to offset the vulnerability of the locally-based structures.

124. The process of adapting internal control to the new environment arising from the State reform and the deployment of *Chorus* is far from complete.

125. The State's accounting service played its front runner role by devising a set of tools for inter-ministerial control suited to the new environment. However, at the end of 2010, their design and dissemination were still incomplete.

126. While several ministries (Agriculture, Environment and Sustainable Development, National Education) explicitly took into consideration the risks arising from local government reorganisation and the deployment of *Chorus*, many others failed to fully identify the risks.

127. The ministries' attention was focused on mitigating the operational risks connected with the deployment of *Chorus*. In this context, they devoted considerable resources to implementing the short-term solutions required to maintain the continuity of their activity.

128. The ministries that were able to truly engage in adapting and formalising their internal control scheme were few and far between. The Ministry for National Education devised a risk map specific to *Chorus* on the basis of the work conducted by a group of experts.

129. Naturally, the actions aimed at mitigating risks under the *Chorus* environment were typically structuring tools but the actions undertaken were more often than not of a general nature, the effectiveness of which is questionable particularly in the locally-based services.

130. Several processes that were subjected to a thorough scrutiny by the Court in 2010 exhibit shortcomings.

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131. The control procedures for identifying government intervention expenses and liabilities are not sufficiently effective or efficient. Multiple defects in the internal control applicable to these processes generate an associated control risk that continues to be high.

132. The quality of internal controls applicable to the “pay” process continues to vary significantly from one ministry to the next. However, the Court notes that effective risk mitigation schemes have been deployed for the “pay” process in school education.

133. It was also apparent that the internal control schemes applicable to the “public ordering” process that were tested while performing an interim assignment, are subject to further improvement.

134. Tests conducted on internal control for fixed assets and inventory in the main relevant ministries show that the approach is variously implemented and that there is much room for improvement.

135. Due to the absence of an inter-ministerial steering entity for the schemes relating to “real estate assets”, the control-related risks are not satisfactorily mitigated.

136. The internal control schemes for many of the processes tested under the remit of the financial ministries need to be enhanced. During these tests, the Court identified inadequacies in the internal control of a number of the State's cash and liquid assets items.

137. In the area of asset accounting procedures, the centralising accountant stations (DRFiP, DDFiP, TG) are able to carry out only a relatively limited control on the secondary accountants that report to them. This applies first and foremost to the revenue offices of the financial administrations (tax, customs, land registries) where internal accounting control is only just beginning, but also to the Treasury's secondary accountants.

138. Internal control for the cash and liquid assets of local authorities and of Treasury correspondents, which by law must be deposited with the Treasury, is not sufficiently centralised. The consistency check on the amounts recorded at closing of the State's accounts and the amounts that appear in the management applications (*Helios*, CEP, Catloc) is not enough to detect misstatements for want of an adequate audit trail.

139. In spite of the efforts made both by the Ministry of Defence and the accountant network, the internal control relating to the Military Treasurers' advance accounts coming under the exemption procedures of the Ministry for Defence and the Ministry for the Interior (*Gendarmerie*) still has shortcomings as a result of the entirely manual control processes and inadequacy of the audit trail. Furthermore, the analysis and justification for "miscellaneous non-State funds", i.e. revenue that is not to be paid over to the public accountant, are still unsatisfactory.

140. There are some weaknesses in the internal control scheme for negotiable financial debt. The control and operations functions of the French Treasury Agency (AST) have not yet been fully separated. The definition of both the scope and conditions for applying prudential banking and financial regulations is lacking in precision.

141. What this situation shows up is that internal controls in ministries have progressed at very different paces. This makes it even more necessary and urgent to disseminate tools that will enable Secretaries-General to make a substantiated assessment of the effectiveness and efficiency of the schemes used.

142. The move to a higher level of maturity in organising internal control has yet to translate as the implementation of tools to assess the effectiveness and efficiency of existing schemes in many ministries.

143. Only the Ministry for Defence and a number of directorates in the financial ministries (DGFIP, DGDDI, General Secretariat) use reliable, operational tools for ongoing assessments of internal control.

144. In a number of cases, a proactive evaluation approach has been adopted but both the underlying methodology and the conditions under which it is implemented need to be reviewed.

145. In most ministries, the absence of structured evaluation mechanisms is indicative of an overall lack of supervision of accounting risk mitigation schemes.

146. The maturity reached by the DGFIP in handling accounting risks is an opportunity to develop a shared tool based on a standardised, structured methodology that focuses on three areas (organisation, documentation, traceability). At the present stage, the experiment has been rolled out to all the entities and processes managed by the Ministry of Defence but is applied only to a limited extent in the other administrations ("intervention" process

for DGCCRF, Foreign Affairs, Environment and Sustainable Development, Health, Agriculture and Culture, “public ordering” process for INSEE [National Statistics Office], Labour and Justice). Widespread dissemination of this tool should be encouraged providing that it is rigorously applied so as serve as a solid foundation for the administration to detect the weaknesses in its internal control.

147. The AGIR application designed to enhance traceability and auditability of accounting and banking internal control for the DGFIP services has been extended to all the principal accountants of the State in 2010. Improvements made to this tool in the wake of the interim assignments should help the Court to draw some probative conclusions as to the accounting quality of the transactions this network handles.

148. The note in the appendix to the accounts of the statement of “budget commitments relating to transactions for which the service ascertained was not performed” does not allow for the assessment, where applicable, of insufficiency of the commitment authority expenses for some budgetary programmes. As such, internal control over commitment accounting as provided for under article 8 of the LOLF is inadequate.

149. The statement of “budget commitments relating to transactions for which the service ascertained was not performed”, which is presented in the appendix to the State’s Annual Financial Report, does not provide accurate information. The accrued expenses that appear in this statement for the amount of €3.2 billion are not exhaustive and cover less than 50% of the accrued expenses accounted for at 31 December 2010.

150. This note is misleading as to how to read this statement because it fails to show the missions that enter into the State budget for which the accrued expenses have been entered into accounts without prior consumption of commitment authorities.

151. The main accrued expenses at 31st of December 2010 not included in the statement of commitments relate to the following transactions:

- reconciliation of State debt/Social Security: €2547.5 million;
- contribution of the CNES (National Centre for Aerospace Studies) to the European Space Agency: €367.4 million;
- offset of social contribution exemptions: €253.5 million;
- mutual association annuities: €255.1 million;

–the Day School Flat Rate system: €203.9 million;

–annuity mark-up: €197.4 million.

152. The need to recognize the expense in the appropriate accounting period under general accounting may undermine the exhaustiveness of the outstanding amounts payable in each programme in the Annual Financial Report appendix inasmuch as these amounts are smaller than the accrued expense figures in the general account.

153. The administration challenges this approach considering that the statement of budget commitments should only record the part of the accrued expenses that match the consumption of commitment authorities.

154. The Court considers that the presentation of the accrued expenses in this statement is not exhaustive. There is therefore a disagreement on the figure for accrued expenses broken down as per mission and programme.

Ministerial internal audits

155. The number of internal audit departments whose work the Court is able to use pursuant to the provisions of international audit standard ISA 610 remains limited.

156. Exchanges of letters since 2008 have defined the procedures for coordination with the DGFIP internal audit and the CGEFi (General Economic and Financial Control) department.

157. Relations with the Ministerial Committee for Accounting and Financial Audits of the Ministry of Defence are governed by an exchange of letters signed on 20 May 2009 enabling a set of very detailed reports to be used which in most cases have corroborated the findings of the Court.

158. At the end of the year 2010, relations with the General Inspection and Audit Mission for Agriculture, Food and Rural Areas were formalised by an exchange of letters.

159. An exchange of letters in December 2010 also formalised relations with the General Council for the Environment and Sustainable Development within the Ministry for the Environment, bringing the number of ministries that adopted this approach to five.

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160. In a small number of cases, the internal audit function was identified and is the focus of a development strategy which has not yet reached a sufficient degree of maturity.

161. The Ministries in charge of Health, Labour, Justice and Culture have embarked on a process of identification and development of an internal audit.

162. However, this engagement is not yet sufficient to allow the Court to formalise its relationships with the audit structures concerned.

163. At 31 December 2010, many ministries have yet to take decisions on their operational development strategy for the internal audit function.

164. The absence of any development project for this function was once again noticeable in several ministries for which this has considerable implications (Interior, National Education, Higher Education and Research, Foreign and European affairs).

165. It was therefore impossible to reach any assurance that the internal audit services concerned do offer the required guarantees of independence and objectivity, in particular as regards planning their work and their communication with the Court and consequently prevent reliance on the conclusions of an internal audit within the meaning of international standard ISA 610.

166. A draft regulation concerning the internal audit function in administrations is planned to correct that shortcoming and may be the opportunity to make significant progress (generalisation of a risk-based approach, clearly stated responsibility of Secretaries-General in the area of internal control, establishment of an entity in charge of internal audit on the ministerial scale). However, at the end of 2010, this overall framework had yet to be approved.

167. The extension of the notion of risk raises the issue of resource allocation as between various types of audit; additionally, whatever the duties entrusted to accountants in implementing the approach to mitigating accounting risks, the authorising officers must continue to be heavily involved.

3 - Sovereign revenues

168. Failure to achieve any significant ascertainable progress in 2010, the uncertainty and the limitations that continue to burden accounting records of sovereign revenue have led the Court to maintain the substantive qualification it formulated for the previous financial years.

169. Net sovereign revenues came to €271 billion in 2010. At 31 December 2010, net taxpayer debts came to €47 billion on the assets side of the State's balance-sheet, and tax liabilities came to €17 billion.

170. Recording sovereign revenues on an accrual basis requires the following conditions to be met concurrently:

- a tax scheme which by design enables the necessary information to be collected so as to identify and evaluate the State's and the taxpayers' commitments;
- an information system able to handle the useful accounting information on a continuum and in compliance with the accrual principle as defined in the standards;
- a regulatory environment which as far as possible follows the outline accruals concept that is consubstantial with the LOLF.

171. For most of the tax schemes in force these conditions were not met on 31 December 2010.

No significant improvements

172. The accounting treatment of business taxes (€479 billion in 2010) did not improve in any way in 2010.

173. The reorganisation of the internal control function in conjunction with the implementation of the new organisation arising from the merger of the two networks is yet to be completed. Residual historical practices are a hindrance to deploying a centrally programmed control that is similarly implemented everywhere.

174. Furthermore, the major campaign to document processes and compile reference standards, which should normally have preceded the definition of the certified agents, is still not complete. Additionally, it should have covered all of the automatic processes handled by the IT tools together with the procedures for evaluating closing entries.

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175. The MEDOC application will be maintained in the target architecture of *Chorus* in 2012 making it even more necessary to perform the adjustments pointed to by the Court in several past financial years to improve the quality of the accounting audit trail and automate recording of entries.

176. The level of risk is also high in the accounting processes used for personal tax.

177. An in-depth study of the cascades for income taxation confirms, that in this area, the requirements of continuity in the accounting audit trail still leave room for improvement.

178. The huge complexity of taxation cascades, combined with insufficient documentation of the data-processing procedures all the way to the accounting entries, the numerous manual re-entries, and the absence of guidelines for the reports used to evaluate closing entries undermine the quality of the accounting information produced in the area of income tax and limits the Audit Court's ability to carry out its checks.

Accounting entries and balances are still insufficiently documented

179. The procedure guiding the process for documenting accounts is not capable of assuring good accounting quality of the records.

180. While the instructions coming from Central Government are properly followed, the documenting activity for accounts is still very limited in scope, e.g., accrued expense and revenue accounts are never documented centrally.

181. Furthermore, because the supporting documents are held at the most local level of services, the closing file cannot be efficiently used as a control tool by the central administration or as evidence by the auditors.

182. The deficiencies in or the lack of formalised controls materially limits the scope of the Court's audits preventing it from systematically tracing back to the unit data that were the source of the accounting entries.

183. For the first time in 2010, the administration conducted a reconciliation in conjunction with the securing of debt resulting from tax audits pertaining to the data for 2009.

184. In the absence of materials for verifying the outcome of this reconciliation and because a reconciliation was not performed on the 2010 data, there is a continuing uncertainty as to the adequate posting of debt arising from tax audits, which were assessed to come to €12.3 billion on 31 December 2009.

185. A risk continues to weigh on the exhaustiveness, proper accrual and valuation of deferred and stage payments (€2.8 billion in 2010) as is evidenced by the persistent errors in respect of these criteria, the ascertained inefficiency of internal control and the insufficiently stringent management of access authorisations to the GOLD application.

186. The supporting documents for allowance for doubtful debts (€26 million on 31 December 2010) were the topic of specific studies performed by the various tax collection networks leading to the conclusion that there is uncertainty about the correctness of the chosen rate.

The incidence of tax schemes on the State's accounts is not accurately presented

187. Inadequate analysis of the tax schemes in force, sometimes combined with lack of tax return data, prevents their impact from being fully reflected in the State's accounts as required by accounting standards.

188. At the request of the Court, the tax implications of the Girardin Plan (€1.4 billion) are for the first time included in the financial statements. However, those relating to many other measures do not appear (deferred or staggered payment of income tax or corporate tax permitted in certain specific circumstances: capital transactions, exchanges of securities, payment of subsidies or benefits, etc.) or are notified only in writing (capital gains carried forward for the purposes of income tax taxation).

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189. The guarantees presented enabling a taxpayer to defer tax payment are also not fully valued. Only guarantees relating to tax role taxation on private individuals are presented for an amount of €440 million.

190. Outstanding amounts to be collected in the area of customs fines and fines relating to indirect contributions arising from a settlement or from a Court ruling are not recorded in the balance-sheet.

191. When designing and setting up new tax schemes, the administration does not take into account the conclusions drawn from the inadequacy that has been noted on a regular basis since 2006 affecting most of the existing schemes in order to improve the quality of the information reported in general accounting.

192. Management of the new contributions, which in 2010 replace the locally levied business tax (€17.7 billion collected for the financial year), is being inserted into the existing procedures and uses current tools that suffer from the inadequacies and risks that were regularly notified in the past and still apply.

193. The nomenclature used to record tax expenditures does not allow sufficient analytical data to be recovered *ex post* as regards their nature and their year of accrual. This information considered separately is indeed useful for valuing and presenting accounting aggregates that are homogeneous and designed to rigorously monitor accounting performance.

194. These inadequacies, combined with the choice of tax scheme design, are such that preparers of accounts cannot routinely link revenue and expenses to the financial year during which the taxable transactions took place, but instead only to the year of collection or disbursement, making the information reported in the general account largely irrelevant.

195. The data presented in the appendix relating to these schemes are not helpful in enabling the users of the financial statements to accurately assess the impact of the former or the new tax measures for any individual financial year or variations over time.

196. The information presented in the appendix to the statement of allocated taxes and duties does not adequately report the allocation of gross earnings as between the State's budget and the funds allocated to third party recipients.

197. The State collects allocated tax and duties and pays them over in full or in part to third parties such as local governments, social insurance bodies and agencies. These transactions are recorded in the State's general account under third-party accounts and therefore have no impact on the income for the financial year (not recorded in the expenses and revenue accounts), with the exception of collection expenses where applicable. However, at the request of the Court, they are described in a separate explanatory note in the appendix, in accordance with the principle of adequate information.

198. In 2010, the shares of the State and of the recipients are itemised as being respectively €271 billion and €14 billion.

199. This information is collected manually and as such there is no assurance of the exhaustiveness of the data appearing in the appended table. More than €13 billion worth of allocated taxes and duties do not appear in the table including the TV licence fee (€3 million), additional taxes on registration charges (€2.3 billion), import duties (€1.9 billion), dock dues (€1 billion).

200. Collection and recovery costs do not appear on the table in connection with the associated allocated taxes.

201. Similarly, the breakdown between the State's share and the portion allocated to third party recipients is not accurately reflected for each tax that appears in the table. The State's share is not presented separately for the tax on insurance contracts (€3 billion).

4 - Government agencies and other financial fixed assets of the State

202. All the uncertainties affecting both the valuation, in the annual accounts of the State for 2010, of its agencies and of some of its other fixed financial assets and the completeness of the list of the latter, induce the Court to maintain its substantive qualification on the valuation of agencies and to extend the qualification to the State's other fixed financial assets.

203. On 31 December 2010, the value of the State's financial fixed assets was €283 billion, i.e. 32 % of the total figure on its balance-sheet. They include 876 financial interests for an assessed value of €219 billion, receivables related to those interests for the amount of €43 billion, loans and advance payments for a net value of €17 billion and other fixed assets for €4 billion.

204. 775 of the State's interests are controlling interests for a value of €118 billion, including the 571 entities for an assessed value of €60 billion that carry out a public service mission under the close supervision of the Central Government. These entities receive majority funding from the Government and are referred to as State or Government agencies.

State agencies

205. The virtuous dynamic of obtaining an external audit opinion for the agencies' accounts—involving 100 agencies at 31 December 2010, i.e. 63% by value at that date—is still strongly limited by their belated closing dates.

206. Most agencies settle their accounts at a very late stage. Consequently, many of them are valued on the basis of interim accounts that have not yet been audited by their own statutory auditors.

207. While the dynamic triggered by the audit opinion process undeniably has a positive effect on the quality of the accounts for these entities, its probative value in respect of assurances about the State's Financial Report is so far questionable because the Court very rarely receives the opinion of the statutory auditors by the time it must itself determine its position on the State's accounts.

208. Failing that, the preparer of the accounts has organised meetings with the statutory auditors of just a few agencies thus enabling the Court to become acquainted with the interim conclusions of the audits.

209. In spite of all significant progress in creating awareness among agencies as to the issues involved in internal control, the schemes implemented by most agencies were still inadequate at 31 December 2010.

210. The internal accounting control of many of the agencies that were scrutinised by the Court (€9 billion in value) is either inexistent or inadequate at 31 December 2010.

211. This finding is corroborated by many of the national audit mission reports of the DGFIP.

212. The agencies' real estate assets are not always correctly recorded in their balance-sheet assets at 31 December 2010.

213. Considerable progress has been made and the administration estimates that 283 agencies had completed this effort on 31 December 2010. The adjustments implemented translated as an impact of €4.9 billion i.e. 8% of the agencies' equity value at 31 December 2010.

214. The Court notes, however, that at 31 December 2010:

- there is uncertainty as to the exhaustiveness and correctness of the list of those agencies;
- the quality of the valuations for is not always satisfactory;
- the scope of the reliability campaign is not comprehensive since some major agencies such as VNF (French Waterways Agency) and ONF (French National Forestry Commission), that have their own real estate assets, are still in the process of implementing the campaign.

215. Most agencies do not consistently comply with the accounting instructions applicable to assets, in particular as regards the component-based approach and the accounting treatment of cultural goods and historical monuments.

216. A very large majority of agencies that were scrutinised by the Court in 2010 do not apply or only partially apply the 23 January 2006 instruction on liabilities, assets, and asset write-off and depreciation. These findings are corroborated by the results of audits conducted in 2010 by the national audit mission of the General Directorate for Public Finances.

217. The statutory auditors of some universities and of the CNRS (National Centre for Scientific Research) have also confirmed that they will be maintaining their qualified opinions relating to failure to apply the component-based approach to the 2010 accounts for those entities.

218. The accounting practices for cultural goods and historical monuments were still inadequate on 31 December 2010. These weaknesses are partly due to shortcomings in the current regulatory provisions.

219. On 31 December 2010, among the nine entities that account for 73% of the equity value of agencies under the supervision of the Ministry of Culture, only the Public Establishment for the Versailles National Estate and Museum and the Centre for National Monuments fully apply the provisions in the National Accounting Council's Opinion No. 2009-17 dated 10 November

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2009 concerning the accounting practices for the works of art and collections they hold.

220. Concerning historical monuments, agencies are in doubt as to how to process these goods in the accounts in the absence of regulatory provisions applying to public establishments.

221. The Court is still unable to provide an assurance as to the reliability of the mutual reconciliation procedure for debts and receivables between the State and its agencies on 31 December 2010.

222. Increasingly widespread implementation of this procedure is a significant step forward towards improving the State's accounts and those of its agencies.

223. However, the Court notes that the answers obtained are not complete: some agencies have not sent in all the summary reports which are essential documents for forming an opinion as to their evidential value for the reconciliation procedure.

224. The discrepancies between the amounts identified by the agencies and those found in the *Orchidée* and *Chorus* applications have neither been analysed nor corrected by the preparer of the accounts.

225. There are still some outstanding inadequacies in the main items under the liabilities on the agencies' balance sheet.

226. Contributions to equity and subsidies are not always correctly recorded in the agencies' accounts. The campaign launched by the account preparer was in process at year end 2010.

227. Until the complete identification of non-transparent schemes, described as such whenever the handling agency is responsible for attribution decisions, the uncertainty as to the correct posting in the agencies' accounts on 31 December 2010 will persist. At the request of the Court, the overall equity value of agencies in the State's accounts has been corrected to take into consideration the contingency reserve that should have been recorded by the AESN (Normandy Water Agency) and the ADEME (Agency for the Environment and Energy Harnessing) in the 2010 accounts.

228. Some agencies do not record contingency reserves (water agencies) or only do so partially or else with no supporting documents. The Court notes that many agencies have not attempted to analyse the possible risks which could potentially confront them, or do so inadequately.

229. There are also shortcomings in the presentation of the agencies' contingent liabilities in the accounts, particularly universities and establishments that are under the supervision of the Ministry of Culture.

230. Many entities state that they do not record social liabilities (universities, water agencies, for instance) or have only partially recorded them (e.g., ONF), as a result in particular of the shortcomings in the applicable regulatory provisions in this area.

231. The dissimilarities in the accounting standards applied by the State and its agencies impair the valuation of those entities in its accounts on 31 December 2010.

232. The accounting standards and practices of agencies differ making any comparison of their valuation at year-end of little value.

233. Furthermore, these reference standards also are at significant variance with the accounting standards of the State, particularly in the area of fixed assets.

The State's other financial fixed assets

234. The accounts of some of the State-controlled entities apart from agencies suffer from the same uncertainties as those noted for agencies, with the same effects on their valuation in the State's accounts for 2010.

235. The real estate assets of some of these entities is not correctly recognised in their accounts due to failure to implement a reliability campaign.

236. Some of the State-controlled entities do not always abide by the accounting instructions applicable to assets.

237. There was no procedure for offsetting reciprocal debts and receivables between the State and the State-controlled entities other than agencies at year-end 2010.

238. The divergences between the various accounting standards applied by the State-controlled entities apart from agencies impairs their valuation in the State's account

239. Some of the non-agency State-controlled entities are assessed on the basis of their accounts for the previous financial year. Furthermore, the accounts qualified by the statutory auditors

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for some of the State-controlled entities other than agencies are not available until after the State's accounts are finally settled.

240. Two issues relating to scope of application give rise to material uncertainty as to the exhaustiveness of financial asset accounting in the State's accounts for 2010.

241. The administration had undertaken to complete the analysis of all of the entities managed by third parties on behalf of the State into 2010 so that they could be correctly re-transcribed into its accounts. At year-end 2010, nothing conclusive had been done to remove the uncertainty generated by failure to recognise these unincorporated funds in the accounts, in spite of some limited progress having been made.

242. One example of what this results in is that there are five guarantee funds¹ in which the State has a direct financial involvement and which are managed by the central reinsurance body (CCR) that are not recognised either in the latter's accounts or those of the State. The Court considers that these guarantee funds possess the characteristics of a State asset and as such should be recorded as ad hoc entities in its accounts. In agreement with the Court, the administration has begun to establish an accounting typology of unincorporated funds attached to the CCR and the AFD (French Development Agency) so as to review their accounting method (gross value and possibly write-down) for the coming financial year.

243. The administration has undertaken to clarify the accounting treatment of public health care institutions (EPS), which are currently not counted as financial fixed assets of the State. Indeed, the status of 1043 EPSs was altered following the publication in 2010 of implementing decrees for Law No. 2009-879 dated 21 July 2009 concerning the hospital reform and patients, health and territories (HPST), that led to the abolition of their status as local

¹ National Guarantee Fund for Agricultural Calamities, Compensation Fund for Construction Insurance Risks, Major National Catastrophe Risk Prevention Fund, Guarantee Fund Risks associated Agricultural Application of Urban Sewage or Industrial Sludge, Fund for Securing Business to Business Loans.

public establishments and a heightened role of the State in their governance.

244. There is still uncertainty as to the comprehensive inclusion of State loans that are subsidised in the form of reduced interest rates and deferred repayment period, as well as their valuation at year-end.

245. The Court has already identified subsidised loans granted to new towns for an amount outstanding of €200 million possibly representing an additional write-down of €97 million. Furthermore, under the automobile covenant, the State decided to grant subsidised loans for a total amount of €250 million to support scaling up projects for the production of green vehicles and related special equipment.

246. The administration has yet to make a complete inventory of the loans granted at subsidised rates.

247. The write-down methods used so far by the administration for State loans consists in the evaluating only the risk of default by the debtor countries without considering the loss in market value in connection with overall interest rate trends. In 2011, the administration undertook to enter an inventory value for loans that reflects their going concern value for the State.

248. The information provided in the appendix relating to non-controlling financial interests is not sufficiently detailed.

249. International bodies and social insurance bodies whose net worth is negative, that are classified among the non-controlling interests in the State's accounts, are valued at the amount of the contribution made by the State or failing that at zero.

250. However, no information is provided in the appendix allowing for their actual financial position and funding need to be more accurately assessed at 31 December 2010.

5 - he assets of the Ministry of Defence

251. Following the implementation of a 3-year proactive campaign undertaken by the Ministry for Defence and Veterans to optimise reliability, the significance of the disagreements and uncertainties relating to the exhaustiveness and valuation of the Ministry's assets in the State's accounts for 2010 are such that the Court maintains its Substantive Qualification.

252. On 31 December 2010, not considering real estate assets, the fixed assets in service at the Ministry of Defence came to €116 billion in gross value, i.e. €51 billion in net value. Stocks are over €34 billion in gross value, i.e. approximately €31 billion in net value.

253. The salient features of these assets are their extreme diversity, wide age range and the limitations of the information systems used to inventory them and assess their value.

254. In 2010, the Ministry continued with the reliability drive it started in 2007:

- work on enhancing reliability of amounts outstanding continued;
- the transfer of the electronic inventory files (FII) resulted in the stabilisation of the information on fixed assets in service and the removal of the discontinuity in accounting information between financial years noted by the Court since 2006.

255. These improvements were achieved simultaneously with the rollout of *Chorus*, a difficult task that requires a strong commitment from the Ministry. Nonetheless, some considerable difficulties subsisted at year end 2010, in relation to which the Ministry has undertaken to implement a new action plan.

Material misstatements relating to Defence inventories persist

256. The valuation on 31 December 2010 of the inventories of ammunition for the Army was not substantiated.

257. The Army's inventories of ammunition are accounted for at €3.6 billion on 31 December 2010.

258. The evaluation could not be audited as no supporting evidence is provided for the values recorded and due to variance in the unit value for identical items.

259. The reconciliation of inflows into the electronic inventory files (FII) and the amount of purchases in stock that appear in *Chorus* is not provided.

260. Current IT resources do not allow for complete traceability of incoming inventory flows.

261. The absence of reconciliation between budget flows and incoming inventory movements recorded by the logistics

information systems prevents any assurance as to the reliability of inventory valuation.

262. There is a risk of double counting of real assets and stocks in the case of disassembly operations on aircraft that have been decommissioned.

263. Decommissioned aircraft may be disassembled and many spare parts recovered. The latter are then accounted for as inventory whereas the gross value of the equipment remains unchanged.

264. The inventories recovered through these so-called "cannibalisation" operations are valued at the last known value and are not subject to a write-down.

265. Some inventories are accounted for at values established according to methods that do not comply with Standard No. 8 of the State's collected accounting standards.

266. The logistics information systems used by the main departments that handle inventories—integrated maintenance structure of for aeronautical defence equipment (SIMMAD), integrated structures for maintaining land equipment in operational condition (SIMMT), fleet support service (SSF)—do not allow a single weighted average unit cost to be computed for each inventory item.

267. A significant portion of the spare parts in stock that appears in the inventory of those handling departments is, furthermore, not auditable.

Inventory of assets and liabilities still inadequate

268. Accounting shortcomings regarding some assets and liabilities have led to an on-going uncertainty.

269. The assessment of dismantling expenses (€667 million) made by France's Defence procurement agency (the *Direction générale de l'armement*, or DGA) now encompasses strategic missiles and nuclear submarine reactors. These sums, however, which are limited to the scope of the Military Programme Funding Act, do not cover the very long-term operations in question, which are to be continued at least until 2090. As a result, there is uncertainty as to the accuracy and exhaustiveness of the evaluation of this provision with regard to the requirements of Standard No. 12.

Moreover, no dismantling asset has been accounted for among this equipment.

270. The “heavy maintenance” and “major inspection”, entered into the accounts by the ministry, reflect the State’s obligation to commit to subsequent expenditure which is vital to ensure that certain air force and navy equipment keeps running smoothly. Yet the “heavy maintenance” and “major inspection” components were not entered into the accounts for all ships, even though some of those ships not included underwent a major inspection in 2010. This is the case, in particular, for the frigates Latouche-Tréville (gross value of €262 million), Georges Leygues (gross value of €111 million) and Aconit (gross value of €204 million). While not strictly a case of non-compliance with Standard No. 6, this hole in the accounting means that not all ships are treated equally when it comes to these cumbersome maintenance operations. The rollout of *Chorus* and the drafting of *ad hoc* accounting procedures should pave the way for progress on this point.

271. As at 31 December 2010, the catalogue of assets that the Ministry of Defence has made available to the manufacturing sector is not always exhaustive.

272. Despite the endeavours undertaken by the SSF and SIMMAD to optimise reliability in 2010, the assets and inventories that these departments make available to their industrial partners are not always correctly valued. The scope of the list remains incomplete.

273. A good deal of equipment, worth a total of €1.12 billion, is monitored logistically by the DGA but fails to appear on the Central Government’s balance sheet.

274. The accounting treatment of State-to-State contracts applied since 2006 does not correctly portray the true responsibility of the Central Government inherent in these commercial transactions.

275. The notion of State-to-State contracts encompasses arms export agreements with a foreign power, signed directly by the Minister of Defence.

276. In parallel, a retrocession agreement shifts responsibility for the production of the material in question to the manufacturer.

277. These contracts are traceable in the public accounts as third-party accounts, reflecting the State’s role as a mere cashier.

278. An analysis of these State-to-State contracts and their associated retrocession agreements from a legal perspective, undertaken by the *Cour des Comptes*, reveals that responsibility for the proper implementation of the provisions contained therein rests with the State. The State is thus not able to transfer its liabilities to the manufacturer, but may lay a claim against the manufacturer if the necessity should arise. It would therefore be advisable to enter the sale of military material to a foreign State and the purchase of that same material from a manufacturer separately in the public accounts, as well as the commitments that the State is prepared to honour if the need arises.

279. The administration agreed to have a thorough legal analysis of all of these State-to-State contracts performed in 2011 so as to ascertain all the possible accounting implications stemming from them.

Fixed asset valuations not very reliable

280. Numerous fixed assets commissioned appear in the financial statements at unjustified values.

281. In the Audit Court Opinion of the 2009 financial statements, the *Cour des Comptes* noted that some fixed assets in service at the time, mostly acquired prior to 2006, appeared in the public accounts with considerable corresponding amounts that were not justified. The values deemed non-auditable by the Ministry of Defence's departments as at 31 December 2008 which were still present in the accounts upon closure 2009 were estimated as totalling a gross value of €60 billion and close to €25 billion in terms of net value.

282. Further work undertaken in 2010 by the Defence procurement agency (DGA) resulted in enhanced reliability for several programmes, representing an additional effort of €13.2 billion, gross value, or €7.6 billion in net value (31 December 2009 base).

283. Despite this work on reliability, the value of the fixed assets commissioned prior to 1 January 2006, the value of which the ministry was still incapable of justifying as at 31 December 2010, still amounts to a gross value of €40 billion and a net value of €7 billion.

284. The *Cour des Comptes* received confirmation from the Ministry of Defence that, for these fixed assets, it was unable to locate the documentation necessary for valuing them in accordance

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with the market-analysis method and unable to apply the detailed flat-rate method to them. The Ministry further confirmed that the market-analysis method is strictly applied for the valuation of any material commissioned after 1 January 2006.

285. The valuation tests conducted on material appearing in the accounts and commissioned after 1 January 2006 have nonetheless shown that, for the €1,309 million worth of material tested (gross value), only €23 million in equipment (gross value) was accompanied by supporting documentation as required by accounting standards.

286. The errors identified during the verification process meant that the uncertainty surrounding the valuation of the Ministry of Defence's tangible fixed assets extended also to material commissioned after 1 January 2006 and amounted to a gross value of €2.9 billion and a net value of €2.3 billion.

287. Some of the fixed assets under construction and development where the DGA is the contracting authority are still valued using a method which is incompatible with the applicable Central Government Accounting Standards.

288. Fixed assets under construction (both DGA and non-DGA) come to a total value of €3.7 billion on the basis of cumulative budgetary expenses to which is applied, depending on the case at hand, an apportionment formula. These capitalisations fail to comply with the identification criteria set forth in Standards No. 5 and 6 of the Central Government Accounting Standards.

289. Some qualified military developments, representing a total gross value of €2.7 billion (€1 billion, net value) are also valued by being taken as a whole, rather than individually, via the cumulative budgetary expenses approach.

290. Inadequate consideration is given to ancillary expenses in the valuation of tangible and intangible fixed assets acquired.

291. The valuation of military material and qualified developments acquired as part of the armament programme under DGA supervision fails to incorporate internal expenses, notably costs borne by the contracting authority. The aim of implementing cost accounting methods, announced by the ministry, is to ensure improved monitoring of costs.

292. Treatment of internal costs incurred during amortisable subsequent-expense operations continues to differ from department to department within the Ministry of Defence.

293. The fixed asset and inventory depreciation policy is applied in an incomplete and non-harmonised manner.

294. The depreciation policies pursued by the major services managing fixed assets and inventories continue to display insufficient harmonisation despite the issue of clear instructions.

295. The exclusion in principle of SSF fixed assets (excluding munitions) from depreciation calculations, notably for naval ships, is not justified.

296. Material delivered to the armed forces in 2010 remains listed as in progress in the public accounts.

297. Because the supporting documentation is missing, material amounting to €393 million, delivered to the SIMMT in the course of 2010, has not been recognised in the Central Government's accounting as being in use.

298. While the material has indeed been utilised by the army, it appears under capitalisation in progress as at 31 December 2010, owing to difficulties caused by the rollout of *Chorus*.

6 - Intervention expenditure and liabilities

299. Discrepancies and uncertainties which, as at 31 December 2010, continue to surround the exhaustiveness of expenditure and liabilities entered into the public accounts emanating from the State's role as a social and economic regulator, has led the *Cour des Comptes* to maintain its substantive qualification.

300. Intervention expenditure amounted to €211 billion in the 2010 fiscal year and intervention liabilities totalled €75 billion as at 31 December 2010.

301. The scope of the mechanisms entered into the accounts is continuing to improve, reflecting the administration's efforts to ensure that the inventorying and correct accounting processes are made more reliable.

Uncertainty as to the exhaustiveness of the intervention liabilities inventory

302. There is a significant uncertainty as to the exhaustiveness of the list of liabilities itemised in the accounts under intervention mechanisms, not audited by the *Cour des Comptes*, which amount to €25 billion in expenditure in 2010, as opposed to €44 billion in 2009.

303. Since 2006, the *Cour des Comptes* has repeatedly called attention to a considerable number of irregularities in the accounts concerning liabilities emanating from the Central Government's intervention activities.

304. As at 31 December 2010, there were 1,133 unaudited intervention mechanisms out of a total of 1,337, including 44 which exceed €100 million in annual expenditure, 47 which fall in the range of €50 million to €100 million and 1,42 that account for less than €50 million. These represent, respectively, 65 %, 13 % and 22 % of unaudited intervention expenditure for 2010 (€25 billion).

305. In 2010, the administration commenced mapping of its intervention activities and accelerated the review process thereof. Consequently, the number of intervention mechanisms analysed by the administration rose from 201 in 2009 to 329 in 2010.

306. This progress has not, however, significantly reduced the uncertainty surrounding the exhaustiveness of the intervention-related liabilities in the accounts. Firstly, these analyses only cover 41 % of intervention expenditure (excluding allocations for reserves) appearing in the 2010 accounts. Secondly, they focus principally on the intervention mechanisms already examined by the *Cour des Comptes*. Moreover, some of these analyses display somewhat ambiguous accounting treatment, or even run counter to the regulatory provisions, and their application to the public accounts is not always in compliance with the recommended treatment.

307. Furthermore, most of the intervention mechanisms assessed by the *Cour des Comptes* in the 2010 fiscal year fail to display exhaustiveness when it comes to accounting for liabilities.

308. It is therefore not possible for the *Cour des Comptes* to express reasonable certainty that the as-yet-unaudited intervention mechanisms do not contain the same irregularities.

309. There is also uncertainty as to the exhaustiveness of the intervention liabilities stemming from intervention mechanisms managed by decentralised services.

310. The verification procedures set up by the administration for the inventories compiled by decentralised services have not been able to eliminate the risk of the lists not being exhaustive. On the one hand, they failed to adequately target the most at-risk intervention mechanisms, which represent €2.1 billion in intervention expenditure in 2010. On the other hand, implementation of the procedures was flawed, owing to the high number of non-responses, unjustified or erroneous conclusions and irregularities that were detected but not corrected.

311. The verifications undertaken by the *Cour des Comptes* on some of the most at-risk mechanisms thus revealed major shortcomings as concerns exhaustiveness.

Lack of provisions for Central Government's liabilities under the VAT Offset Fund (FCTVA)

312. The disagreement that arose last year between the *Cour des Comptes* and the preparer of the financial statements regarding the event that generates the Central Government's liability under the FCTVA is unresolved.

313. The FCTVA-related liabilities amount to €6.2 billion in 2010, compared with €9.9 billion in 2009. The difference between the two fiscal years can be explained by changes in the economic climate.

314. Only one provision corresponding to disbursements to be made in response to the reimbursement claims received prior to closure by Prefectural services – but as yet unprocessed – has been included in the accounts at the end of the financial period, for the sum of €0.4 billion.

315. The State becomes liable from the moment in which the local authorities actually make the eligible payments, and not upon receipt of the requests for reimbursement.

316. The FCTVA can be likened to the “on-tap” intervention mechanisms in which allocation of funds is based on legislative and regulatory texts. Accordingly, the legal liability toward the beneficiaries commences from the moment in which the all of the conditions provided for in the texts are fulfilled: namely, in the

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case at hand, once the eligible expenditure has been made by the local body. The Central Government's processing services, which examine the claim for reimbursement, have no authority to refuse the allocation of the FCTVA, and this has been confirmed by administrative jurisprudence.

317. The event giving rise to the Central Government's liability, within the meaning of Standard No. 12 of the Central Government Accounting Standards, is not to be confused with the date upon which the VAT credit becomes payable by the State. The condition of a one or two year timeframe following submission of the claim – applicable to local authorities and public inter-municipal cooperation entities (known by the French initials EPCI) other than formally clustered municipalities – means that the date of accounting entry for the financial claim in favour of the local authority or EPCI may be postponed, but the same is not true for the genesis of the Central Government's liability within the meaning of the Standards.

318. The administration's decision to regard the receipt of the claim as the liability-generating event is inconsistent with its *modus operandi* for other comparable intervention mechanisms, as well as with prevailing practice among private and public enterprises.

319. In the case of the overall contribution to the operating costs of *départements* or tertiary level scholarships, provisions for the State's liability are entered into the accounts prior to submission of the beneficiaries' applications.

320. Ultimately, the request for payment merely represents justification of the "service rendered", much as in the case of invoices submitted by contractors seeking payment of construction sector subsidies or governmental contributions to the operating costs of municipalities.

321. This element is merely an administrative act, and cannot be likened to the event giving rise to an expense or an item of income in the financial statements of business or public entities, nor in the accounts of social insurance bodies.

322. For example, the gains that stem from capped VAT payments appear in companies' financial statements in the fiscal year prior to the one in which the firms request their refund. Similarly, liabilities relating to health-care refund claims are entered into the accounts of social insurance bodies once patient eligibility is triggered, and not upon receipt of the request for the refund.

323. Outflows relating to this liability are probable and there is no expected compensatory equivalent.

324. Current legislation, applicable at the time of closure of the accounts, confers a strong probability that resources will indeed need to be disbursed to settle this liability incumbent upon the State.

325. Given that the aim of this measure is to partially offset the costs borne by local authorities, the State cannot foreseeably expect an equivalent sum in compensation from the local authorities for the allocation to be disbursed.

326. The future disbursement of resources can be evaluated with sufficient reliability.

327. The amounts to be disbursed as expenses settled prior to closure may be assessed statistically on the basis of data recorded over previous years.

328. The *Cour des Comptes* was thus able to assess the FCTVA-related liability incumbent upon the State as totalling €6.5 billion as at 31 December 2010, whereas only €0.4 billion have been provided for at the time of closure.

Debt Reduction and Development Contracts

329. Debt Reduction and Development Contracts are not always accounted for in the Central Government financial statements in a manner that reflects their true characteristics.

330. Another form of the State's intervention activities comes in the form of Debt Reduction and Development Contracts (known as C2Ds in French) for highly indebted poor countries.

331. Under this mechanism, the beneficiary country continues to honour its debt to the French government, but the latter, in return, undertakes to reciprocate with an equivalent-sum donation in order to fund poverty reduction programmes.

332. The preparer of the financial statements has opted for accounting treatment which erroneously depreciates the claim over the other country, whose debt is thus taken to be annulled.

333. On the contrary, the correct break-down of operations – under the principle whereby assets and liabilities and income and expenses are not to offset one another – would enable a clear

distinction between the debt discharge and the granting of aid designed to help fund investment projects.

334. The administration has refused to retract the depreciation of €370 million and itemise a provision for expenditure of an equivalent amount.

7 - The State's real estate assets

335. The serious uncertainties surrounding the inventorying and valuation of the Central Government's real estate assets have led the *Cour des Comptes* to maintain its substantive qualification.

336. The State's real estate holdings appear in the financial statements as at 31 December 2010 with a net book value of €66.4 billion as opposed to €65.3 billion at the end of 2009 (on a *pro forma* basis). This evaluation is based chiefly on market values. Some assets, the use of which by third parties would only be possible at heavily discounted rates (as is the case with historic monuments), are valued at one symbolic euro. Detention facilities are assessed at the depreciated replacement cost.

337. At the end of the second financial year in which real estate data has been handled in *Chorus RE-FX*, a serious uncertainty still surrounds the valuation of the State's property holdings.

338. Indeed, contrary to expectations, the real estate data from the previously-used heterogeneous systems have not been satisfactorily made reliable or consistent.

Inventorying the assets

339. The applications pre-dating *Chorus* are still used for inventorying and managing the property holdings, which runs counter to a key objective of the new software package: to enable the creation of one single database for the management of the State's real estate assets.

340. These applications are used in particular by managerial services, considering them to be the most suitable for the management of the properties.

341. It is crucial that they are fully aligned with the physical inventory contained in *Chorus RE-FX* in order to guarantee an exhaustive inventory of the real estate holdings.

342. Yet three out of the four major ministries managing property holdings (Interior, Defence, and Justice) have not been able to fulfil this requirement.

343. The information which ought to enable a clear view of the situation regarding management of government real estate, in accordance with regulatory provisions, is not currently sufficiently available.

344. While the whole corpus of real estate assets held by the State and its agencies is covered by the inventory module *Chorus RE-FX*, only those assets under the control of the State are to be entered as assets on its balance sheet.

345. What is meant by a property being under the control of the State is not merely legal ownership of the asset, but also control of the conditions of use of that asset, potential services and/or economic advantages relating to said usage. Consequently, it is important to take into consideration, for each property, not only the identity of its owner and occupant, but also – and above all – the nature of the tenancy contract with which it is associated.

346. This essential information, in most cases, is not included. It is entirely lacking for nearly three-quarters of the assets (73 %) comprising the property holdings. For the remainder of the assets, because of the sub-standard quality of the available data, complex analyses are still required in order to establish whether or not they fall under the control of the State.

Asset valuation

347. The sub-standard quality of the data contained in the RE-FX module leads to an uncertainty concerning the valuation of the Central Government's real estate holdings, given that this data is required if the book value of the marked-to-market assets is to be correctly discounted.

348. The inventory instructions disseminated by France Domaine define several methods for establishing the fair market value of assets: on-site evaluation, remote ("desktop") valuation, valuation at one symbolic euro, flat-rate, or by applying a discounting approach.

349. In the last of the above-mentioned methods, there is scant information enabling the book value of the assets in question to be discounted: the applicable scale of the *département* concerned and the maintenance coefficient, which gauges the physical state of the property, as well as the last known valuation. The on-site and

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remote methods are based on values assigned to the properties over the course of the current year. The dates upon which this data was established need to be entered with absolute reliability.

350. There was still a serious uncertainty as to the quality of this data as at 31 December 2010.

351. France Domaine's methods for updating the market value of properties are based on scales that are unsuitable for the State's real estate assets.

352. The annual market value discount of non-specific assets is based on a coefficient of price-shift per m² and on a factor concerning changes in the maintenance coefficient.

353. With the discounting approach, the determination of the price per m² coefficient is approximate. It fails to take into consideration, in particular, the broad range to be found among the State's holdings, and the price fluctuations per m² which could occur in the latter stages of the year.

354. In reality, a lack of variation in the price-shift coefficient between two fiscal years means that changes in an asset's market value cannot be taken into account. This is the case for the majority of holdings located abroad whose market value has barely moved since the opening balance sheet as at 1 January 2006.

355. The lack of regular on-site evaluation of State marked-to-market real estate assets means that uncertainty weighs on their book value entry as assets on the Central Government's balance sheet.

356. On-site evaluation is the most reliable method for determining the market value of an asset. Given the volume of the State's real estate holdings, it is vital that an on-site evaluation is conducted regularly for each of the assets.

357. At least 10.7 % of the marked-to-market assets, representing €4.9 billion, have not undergone an on-site evaluation since the 2006 opening balance sheet.

358. The sub-standard quality of the relationship between the physical and accounting inventories implies a risk of calculation errors when determining the revaluation surplus and the valuation of fixed assets; this risk confirms the irregularities identified by the *Cour des Comptes*.

359. Any variation in the value of marked-to-market real estate holdings is entered into the accounts each year in the form of a revaluation surplus, which affects the Central Government balance sheet either positively or negatively. This stems from the difference between two elements: on the one hand, the updated fair market value of the assets in the physical inventory module *RE-FX* upon closure; on the other hand, the sum of the values that appear in the accounting module *FI-AA* dated 1 January of the fiscal year and the value of any amortisable work commissioned during the year.

360. The verifications conducted by the *Cour des Comptes* were limited by the inadequate correlation between the items valued in the *RE-FX* module and the fixed assets to which they correspond in the *FI-AA* module.

361. In the physical inventory, some fixed assets are itemised as a “site component”, while others are listed as a “rented space”, and some are even recorded under both categories, for differing values. In practice, an item entered in the physical inventory may be matched to several fixed assets in the *FI-AA*. Conversely, a fixed asset may not be matched to any item in the *RE-FX*.

362. The value of assets recorded in the physical inventory display unjustified discrepancies with the one in the accounting inventory, which amount, according to the calculations of the *Cour des Comptes*, to €1.3 billion (absolute value) as at 31 December 2010.

363. Disagreement as to the classification of assets belonging to the Military Fuel Service (SEA in its French initials) means that an uncertainty surrounds the valuation of these assets on the Central Government balance sheet as at 31 December 2010.

364. The SEA facilities (pipelines, storage areas, pump stations, unloading bays, parking areas and heliports) were transferred to the State’s inventory of property holdings on 1 January 2009 as “Specific Specialised Buildings belonging to the State”.

365. At the time of the transfer, these facilities, which had previously been valued at €758.5 million as technical material in the accounts, were mostly valued at one symbolic euro, while the remainder were entered in the accounts for a total of €16.4 million.

366. As regards their specific nature, within the meaning of Standard No. 6, some of these assets should not have been valued at one symbolic euro, but rather at the depreciated replacement

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cost, as this would have been, at the time, the most appropriate method.

367. The accounting treatment of subsequent expenditure on governmental monuments is still overshadowed by uncertainty.

368. While awaiting a point of clarification regarding the applicable standards, the *Cour des Comptes* accepted the administration's proposal of capitalising any subsequent expenditure aiming to enhance the permanence or usefulness of monuments valued at one symbolic euro.

369. This agreement was nonetheless conditional on the amounts in question remaining very small and on the choice of an amortisation period consistent with that employed for the utilisation of fixed assets amortised in this manner.

370. Given the lack of any evidence provided within a reasonable timeframe for its audit, the *Cour des Comptes* has not been in a position to verify compliance with these conditions.

III - Findings from the Audit on the State's Accounts 2010

371. The *Cour des Comptes* divides its audit into two distinct phases. First, it performs “interim” audit in the course of the year, which are followed by a “final” audit after the accounts have been closed, but prior to their final approval. Issuing an Audit Opinion on the public accounts is an annual assignment, which involves continual dialogue with the administration.

372. The timetable for preparing the accounts is set forth in the LOLF: the date for submission of the Budget Review Bill is to be no later than 1 June, and it must be accompanied by the State's Annual Financial Report and the Audit Court Opinion. The Constitutional by-law furthermore stipulates, in Article 28, a possible extension beyond the calendar year, limited to a maximum of twenty days.

373. The schedule for drafting the Budget Review Bill is a major constraint not only for the administration, but also for the auditors. The timeframe for preparing the State's Annual Financial Report does not permit the authorising officers or the accountants to proceed with the verifications and also give the preparer of the accounts the means to secure the process of compiling the financial statements, and, in particular, the inventory transactions. The auditing body has not had sufficient time to extend the depth of the verifications, considering that the object is such a sizeable and complex entity as the State.

374. For the third year running, an interim approval of the accounts has been issued, which has helped make the accounting entries more reliable, especially the inflows and outflows for the year. Its scope, however, needs to be extended to cover inventory transactions, while the methods for its preparation must include greater involvement of authorising officers in order to make the final audits lighter.

375. The *Cour des Comptes* had an initial stabilised balance of assets and liabilities at its disposal as of 3 March 2011, meaning that there were only 31 full days in which to conduct its final audit (as opposed to 33 days in 2009), which involve cumbersome procedures for collating and processing accounting data and supporting documentation stemming from all of the different services and departments of the State.

376. This year, there were several new subjects to be audited, chiefly the reform of the locally-levied business tax (the *taxe professionnelle*), the loan to Greece and the establishment of the European

Financial Stability Facility, the future investments programme and the consequences of the Hospital, Patients, Health and Territories Act (known as the HPST Act) on the inclusion of hospitals in the State's accounts.

377. The *Cour des Comptes* also undertook deeper analyses on several subjects, notably information systems, presentation of the Central Government's financial debt and debt buy-backs, cash flow – including that of local authorities and local public institutions based on data available in the software package *Hélios* – sovereign revenues, financial fixed assets excluding participations in agencies, the reliability of valuations for certain intervention liabilities (adult disability allowance and housing assistance) based on CNAF data and the reliability des actuarial calculations concerning pension liabilities.

378. Finally, in the 2010 fiscal year adjusted comparative data (*pro forma* accounts) from the two previous years (2009 and 2008) was included for the first time.

1 - Interim audits on the State's 2010 financial statements

379. The interim audits were conducted from September to December 2010. Their purpose was to assess the risk of material misstatements in the accounts by verifying, in particular, the proper application of accounting procedures and the effectiveness of the internal control systems.

Content of the interim audits

380. Gauging the risk of material misstatements in an accounting area makes it possible to subsequently adapt the intensity of the final audit.

381. The interim audits were performed in twelve ministries, in accordance with the 2010 Finance Act. These audits included a section that was common to the whole administration and another section tailored to the accounting challenges unique to each ministry.

382. The cross-cutting section of the audit focussed on the rollout of ministerial accounting risk management initiatives. It included, notably, an appraisal of the way in which internal control governance structures are working in each ministry, as well as ministerial mapping of accounting risks and how these are transposed into ministerial action plans. It also covered the implementation of internal audit services within the various ministries.

383. The aim of the second section of the audit was to conduct in-depth checks on how suitable the procedures were in their new context, notably with regard to the rollout of *Chorus* within each ministry, based on a risk analysis specific to each.

384. Tests were carried out on certain key processes (notably those relating to interventions, remunerations, public procurement, fixed assets and inventories, real estate holdings, and processes used in the finance ministries) so as to gauge the level of maturity of the ministerial internal control mechanisms.

385. Finally, rollout progress of the evaluation instruments (notably the scale of risk maturity and the application AGIR) was also examined.

386. The Ministry of the Economy, Finance and Industry and the Ministry for the Budget, Public Accounts, the Civil Service and State Reform were, in addition, the subject of audits which were appropriate for the procedures over which they have sole responsibility (financial debt, financial futures, liquid assets, financial fixed assets and interests, sovereign revenues, pensions, contingency reserves and contingency expenses and liabilities).

387. As concerns relations with Social Security (the French social insurance system), the verifications undertaken at the Ministry for the Budget, Public Accounts, the Civil Service and State Reform focussed on taxes and duties allocated to third parties and inventory-related accounting procedures. Examination of internal control of those operations managed by social insurance bodies for the State – entered under intervention expenditure and transfer costs – were built upon the verifications carried out by the *Cour des Comptes* when it audited the financial statements of national social insurance agencies and the combined accounts of each branch and the collection activities of the overall social insurance system, in addition to those carried out by State services.

388. A specific investigation on the organisation of the accounting and financial system and the quality of the accounts was conducted on a sample of 43 of the State's implementing agencies, valued on the balance sheet at €42.3 billion (representing 70.5 % of the equivalent value of the government agencies recorded under assets). The *Cour des Comptes* also referred to audits carried out by the National Audit Service of the DGFIP (14 agencies valued at €1.1 billion) as well as those undertaken by the General Economic and Financial Control department (CGEFi) of the Ministry of the Economy, Finance and Industry. A working meeting was held with CGEFi on 4 March 2011, which enabled an update on the main

observations and achievements in terms of accounting quality in public entities falling under its remit.

389. IT audits were carried out to assess the risks associated with certain components of the Central Government's financial and accounting information system. They covered versions 4 and 5 of the software package *Chorus*, which in 2010 managed the expenses, accounting and non-tax receipts of more than 50 programmes. These audits also encompassed the data exchange system, connected to *Chorus*, which enables data transfer not only from ministerial applications to *Chorus* but also from *Chorus* to the Central Government's general accounting application (CGL), as well as the data capture tool enabling the collection of the data contained in the old expenditure management applications (NDL and ACCORD) for integration into *Chorus*. Recommendations stemming from the audit of the application CEP (regarding deposit accounts for Treasury correspondents) were also followed up. Finally, it was possible to undertake an audit of the local authorities' book-keeping application *Hélios* for the first time.

390. Computerised analyses of data from the general accounts were performed on all of the management accounts of France's 186 centralising accounting stations. The aim is to gather evidence so as to build reasonable assurance as to the quality and integrity of the information found in the application CGL.

Effect of the interim audit

391. Upon conclusion of the interim audit, the *Cour des Comptes*, pursuant to Article R. 137-2 of the French code on audit courts, sent to the Secretaries General of the ministries, to the Director General of Public Finances and to the various directorates concerned, as applicable:

- 14 summary reports on the interim audit by sub-cycle with 283 recommendations;
- 12 statements of provisional observations which, in light of the preparation of the financial statements and the verifications already undertaken, appeared to indicate for the Secretaries General of the ministries concerned the need for a particular investigation or action and which contained a total of 220 recommendations, resulting, after rebuttals had been duly noted, in an accounting evaluation note per ministry.

2 - Final audit of the State's 2010 financial statements

392. Final audits are defined and carried out in accordance with the audit criteria concerning transaction flows, end-of-period account balances as well as presentation and disclosures made in the financial statements.

Content of the final audit

393. The audit was conducted primarily by testing the details of transactions and balances and through analytical examinations in which data is compared from one fiscal year to the next. In many cases, justifying the accounts required repeating the internal accounting checks from beginning to end.

394. The accounting audit of the *Conseil Constitutionnel* was carried out in accordance with professional auditing standards. The report from the *Conseil Constitutionnel's* financial advisor was sent to the *Cour des Comptes* on 7 March 2011. No material misstatements were noted.

395. The accounting audit of the Senate and National Assembly by independent auditors thus designated by the *Conseil Supérieur de l'Ordre des Experts Comptables* was conducted in accordance with professional auditing standards. The auditors' reports were sent to the *Cour des Comptes* on 18 May 2011 for the Senate. No material misstatements were noted.

396. The financial statements of the office of the President of the Republic were examined by the *Cour des Comptes* concurrently with the audit of the Presidential office services. No material misstatements were noted.

397. An audit of the operations carried out by the national audit courts was conducted, at the behest of the First President of the *Cour des Comptes*, by experts designated by the *Conseil Supérieur de l'Ordre des Experts Comptables*. The letter containing the resultant observations was sent to the *Cour des Comptes* on 3 May 2011. No material misstatements were noted.

398. Computerised analyses were performed on the inventorying and valuation of real estate assets in the *Chorus* module *RE-FX*, as well as on the reconciliation between the information relating to the budget, remuneration (PAY and ETR applications), pensions (PEZ) and expenditure (ACCORD, NDL, *Chorus*) and the general accounting data (CGL).

399. Additional computerised analyses of data emanating from the general accounts were carried out on the management accounts of twelve centralising accounting stations so as to gain reasonable assurance as to the quality and integrity of the information found in the application CGL.

400. Technical analyses were also undertaken on the data in *Chorus*, in particular on data relating to invoices and accrued charges from 162 items integrated into the software package.

401. In the course of its examination of financial debt, the *Cour des Comptes* studied the presentation of repurchases of securities and of subsidies and tax relief. Given that the preparer of the financial statements and the Directorate General of the Treasury had undertaken to examine the improvements that could be made in the course of 2011 on these two issues, and taking into consideration the constraints in ensuring seamless financial communication, the *Cour des Comptes* concluded that it was sufficient for this year's financial statements to include information relating thereto in the Notes to the Financial Statements, the constituent elements of which it was able to audit.

402. Despite the lack of a unified budget and accounting IT system, this year the *Cour des Comptes* was able to verify the connections and consistency across the three income-related documents submitted to Parliament for approval: the implementation rate and balance for the fiscal year's budget, the definitive total of cash and liquid asset inflows and outflows presented in the cash flow statement and the net surplus/deficit so that the reality of the State's financial situation could be viewed as a whole.

403. There was also follow-up on the qualifications or partial qualifications regarding the State's 2008 financial statements, lifted for the 2009 accounts.

404. The *Cour des Comptes* verified the quality of the financial information contained in the Notes to the Financial Statements of the 2010 public accounts.

405. Events occurring after the closure of the accounts and up until 19 May 2011, date upon which the Audit Court Opinion was to be approved by the Council chamber, were audited.

406. The *Cour des Comptes* also perused the introductory report, the report on internal control, and the four-page financial communication summary document, so as to verify that the information contained therein tallied with that appearing in the State's Annual Financial Report.

Effect of the final audit

407. Upon conclusion of the final audit on the Central Government's 2010 financial statements, 185 audit observations – comprising 83 requests for modification of the State's Annual Financial Report – were issued, that is to say two fewer than for the accounts of the previous fiscal year.

408. The effect of these 65 observations, which led to satisfactory changes being made to the financial statements, is as follows:

In € billion	Impact of corrections to the accounts		
	Improvement	Deterioration	Net
Balance of transactions for the year	1.5	- 11.1	- 9.6
Net worth (excluding balance of transactions for the year)	35.8	- 3.6	32.2
Off-balance sheet entries	N/A	N/A	-0.4
Reclassifications on the income statement	N/A	N/A	0.9
Reclassifications on the balance sheet	N/A	N/A	7.6

409. Misstatements detected in the accounts amounting, individually, to €100 million or less, and which did not have a significant incidence overall once offsetting and cumulated effects were taken into consideration, were not itemised in the audit observations but were nonetheless communicated to the preparer of the financial statements.

410. Communication between the *Cour des Comptes*, the preparer of the financial statements and the main administrations concerned was continuous, and took place in the framework of the exchange and monitoring committee, co-chaired by the head of the *Cour des Comptes* "Central Government Budget Execution and Accounts" inter-Chamber unit and the Director General of Public Finances as well as in the technical preparation group.

411. The provisional audit report (introduction, grounds for the stance taken, report on the audits conducted), submitted to all the ministries for comment on the section(s) concerning them, gave rise to a hearing for the Secretaries General and central administration Directors primarily concerned on 2 May 2011 before the "Central Government Budget Execution and Accounts" inter-Chamber unit.

Appendix: The State's Financial Statements for 2010

The State's annual financial statements comprise a balance sheet, an income statement (including a statement of net burdens, statement of net sovereign revenues, and a balance of transactions for the fiscal year), a cash flow statement and the Notes to the Financial Statements. These items, which make up the general accounts of the Central Government Annual Financial Report, constitute an inseparable whole.

Only the balance sheet, the income statement and the cash flow statement are provided below, for convenience. The Notes to the Financial Statements have not been included, given to their volume.

The State's Annual Financial Report, approved by the Minister for the Budget, Public Accounts, the Civil Service and State Reform on 17 May 2011, is appended to the final Budget Review bill for 2010 along with this Audit Court Opinion.

Balance Sheet as at 31 December 2010

	Note	31/12/2010			31/12/2009	31/12/2008
		Gross	Amortisation Depreciation	Net	Adjusted Net	Adjusted Net
FIXED ASSETS						
Intangible fixed assets	1	47,391	14,327	33,064	33,943	36,150
Tangible fixed assets	2	510,253	69,025	441,227	422,946	426,654
Financial fixed assets and interests	3	303,946	21,389	282,557	240,867	224,438
Total fixed assets		861,590	104,741	756,849	697,755	687,241
CURRENT ASSETS (excl. cash)						
Inventories	4	34,658	4,002	30,656	30,854	30,134
Receivables	5	95,108	27,433	67,675	60,017	58,499
<i>Taxpayers</i>		72,937	26,149	46,789	46,320	45,977
<i>Customers</i>		6,586	1,067	5,520	5,165	4,894
<i>Other receivables</i>		15,585	218	15,366	8,532	7,627
Deferred expenditure	5	14	0	14	21	31
Total current assets (excl. cash)		129,781	31,435	98,346	90,893	88,664
CASH AND CASH EQUIVALENTS	10					
Funds in bank and cash on hand		1,366		1,366	18,696	10,398
Expected values, inflows and outflows in progress		-1,719		-1,719	-2,033	-1,577
Other cash items		20,424		20,424	24,737	26,914
Cash equivalents		5,240	0	5,239	5,279	10,308
Total cash and cash equivalents		25,311		25,311	46,680	46,042
ACCRUALS	6-11	10,651		10,651	11,471	12,941
TOTAL ASSETS (I)		1,027,332	136,176	891,156	846,798	834,888
FINANCIAL DEBT	6					
Transferable securities				1,246,944	1,164,309	1,031,844
Non-transferable securities				242	249	260
Financial debt and other loans				7,436	10,706	12,007

Total financial debt			1,254,621	1,175,265	1,044,111
NON-FINANCIAL DEBT (excl. cash)	7				
Operating debt			5,424	4,635	4,274
Transfer liabilities			8,026	10,176	11,470
Deferred income			10,081	10,313	8,053
Other non-financial debt			132,936	123,296	137,805
Total non-financial debt			156,467	148,422	161,602
CONTINGENCY RESERVES	8				
Reserves for risks			12,317	10,957	10,220
Reserves for expenses			78,637	78,665	79,678
Total contingency reserves			90,954	89,622	89,898
OTHER LIABILITIES (excl. cash)	9		12,182	12,117	11,866
CASH AND CASH EQUIVALENTS	10				
Treasury correspondents and authorized persons			110,566	66,741	66,204
Other			183	719	963
Total cash and cash equivalents			110,748	67,460	67,167
ACCRUALS	6-11		22,739	18,006	17,631
TOTAL LIABILITIES (excl. Net worth (II))			1,647,711	1,510,891	1,392,276
Carryforward from previous fiscal years			-962,076	-870,506	-794,327
Revaluation surplus and integration			317,511	306,339	307,110
Balance of transactions for the fiscal year			-111,990	-99,926	-70,171
NET WORTH (III = I - II)			-756,555	-664,093	-557,388

Income Statement 2010: Statement of net burdens

	note	2010	2009 adjusted	2008 adjusted	
NET OPERATING EXPENSES	Staff costs	13	133,394	134,014	133,625
	Purchases, inventory variation and external services	14	20,214	20,349	19,271
	Allocations for amortisation, reserves and depreciation	23	40,897	39,774	40,279
	Other operating expenses	14	7,283	7,803	9,104
	Total direct operating expenses (I)		201,787	201,940	202,279
	Subsidies for public service expenses	15	24,373	20,144	16,248
	Reserves	23	0	14	0
	Total indirect operating expenses (II)		24,373	20,157	16,248
	Total operating expenses (III = I + II)		226,159	222,097	218,527
	Sale of products and services	19	3,146	3,377	3,538
	Production inventoried and capitalised		158	89	130
	Reversals on provisions and depreciations	23	32,341	34,510	33,363
	Other operating revenues	19	24,913	22,566	22,004
	Total operating revenues (IV)		60,558	60,543	59,035
TOTAL NET OPERATING EXPENSES (V = III - IV)		165,601	161,554	159,492	
NET INTERVENTION EXPENDITURE	Transfers to households	17	35,330	36,661	34,014
	Transfers to businesses	17	13,147	13,748	12,404
	Transfers to local authorities	17	109,661	82,123	74,875
	Transfers to other local bodies	17	24,623	22,740	19,762
	Expenses resulting from enforcement of guarantees	17	30	29	62
	Allocations for amortisation, reserves and depreciation	23	27,995	36,129	39,226
	Total intervention liabilities (VI)		210,786	191,431	180,343
	Contributions received from third parties	20	5,444	3,971	3,889
	Reversals on provisions and depreciations	23	36,788	34,869	32,034
Total intervention revenues (VII)		42,232	38,841	35,922	
TOTAL NET INTERVENTION EXPENDITURE (VIII = VI - VII)		168,555	152,590	144,421	

NET FINANCIAL EXPENSES	Interests	18	40,139	39,009	40,452
	Forex losses on financial transactions		240	212	318
	Allocations for amortisation, reserves and depreciation	23	2,779	4,464	2,608
	Other financial expenditure	18	4,677	7,179	20,600
	Total financial expenses (IX)		47,836	50,864	63,978
	Revenues from financial fixed assets and participations	21	9,148	16,720	13,372
	Forex gains on financial transactions	21	269	195	358
	Reversals on provisions and depreciations	23	3,495	3,718	4,040
	Other interest and related income	21	3,219	3,233	4,090
	Total financial revenues (X)		16,131	23,867	21,859
TOTAL NET FINANCIAL EXPENSES (XI = IX - X)		31,705	26,998	42,119	
TOTAL NET EXPENSES (XII = V + VIII + XI)		365,861	341,142	346,031	

Income Statement 2010: Statement of net sovereign revenues and balance of transactions for the financial year

	note	2010	2009 adjusted	2008 adjusted
Income tax	22	47,709	46,752	51,184
Corporate tax	22	35,439	31,593	52,064
Domestic duties on oil products	22	13,514	13,835	15,005
Value-added tax	22	129,846	127,606	131,735
Registration, stamp duty, other indirect levies and taxes	22	14,926	13,449	16,746
Other revenues from taxation and levies	22	24,472	19,113	19,148
TOTAL NET TAX REVENUES (XIII)	22	265,907	252,349	285,883
Fines, deductions and other penalties	22	5,560	7,194	6,597
TOTAL OTHER NET SOVEREIGN REVENUES (XIV)	22	5,560	7,194	6,597
European Union own resources based on gross national revenues	22	-14,317	-14,697	-11,906
European Union own resources based on value-added tax	22	-3,278	-3,630	-4,714
TOTAL OWN RESOURCES FROM EUROPEAN UNION BUDGET BASED ON GROSS NATIONAL REVENUES AND VALUE-ADDED TAX (XV)	22	-17,595	-18,327	-16,620
TOTAL NET SOVEREIGN REVENUES (XVI = XIII + XIV - XV)	22	253,871	241,216	275,860

(*) Figures adjusted in accordance with the rules governing the presentation of comparative data as described in Note 2.4 Adjusted comparative data.

	2010	2009 adjusted	2008 adjusted
Net operating expenses (V)	165,601	161,554	159,492
Net intervention expenditure (VIII)	168,555	152,590	144,421
Net financial expenses (XI)	31,705	26,998	42,119
NET EXPENSES (XII)	365,861	341,142	346,031
Net tax revenues (XIII)	265,907	252,349	285,883
Other net sovereign revenues (XIV)	5,560	7,194	6,597
European Union own resources based on gross national revenues and value-added tax (XV)	-17,595	-18,327	-16,620
NET SOVEREIGN REVENUES (XVI)	253,871	241,216	275,860
BALANCE OF TRANSACTIONS FOR THE FINANCIAL YEAR (XVI - XII)	-111,990	-99,926	-70,171

Cash Flow Statement 2010

	2010	2009 adjusted	2008 adjusted	
CASH FLOW FROM OPERATING ACTIVITIES	INFLOWS	421,644	433,863	456,008
	Inflows from sale of products and services	1,158	1,602	1,663
	Other operating revenues	5,205	4,415	7,649
	Taxes and dues collected	333,622	316,959	345,093
	Other sovereign revenues	5,458	5,962	4,624
	Intervention revenues	2,932	3,660	4,396
	Interest and dividends received	12,428	10,533	14,481
	Other inflows	60,842	90,732	78,102
	OUTFLOWS	524,129	542,569	496,195
	Staff expenses	121,103	123,726	124,732
	External purchases and services paid	19,624	18,848	18,732
	Reimbursement and refunds of taxes and duties	65,846	84,871	66,715
	Other operating expenses	3,220	2,975	2,883
	Subsidies for public service expenses paid	23,598	19,711	16,134
	Intervention expenditure	182,640	145,868	133,383
	Expenses resulting from enforcement of State guarantees	92	108	234
	Interest paid	41,613	41,573	44,539
	Other outflows	66,392	104,890	88,842
	NET CASH FLOW FROM OPERATING ACTIVITIES (I)	-102,485	-108,707	-40,187
CASH FLOW FROM INVESTMENT ACTIVITIES	ACQUISITION OF FIXED ASSETS	57,385	35,170	23,993
	Tangible and intangible fixed assets	10,814	15,858	13,096
	Financial fixed assets and participations	46,571	19,312	10,898
	DISPOSALS OF FIXED ASSETS	13,479	10,447	11,797
	Tangible and intangible fixed assets	471	477	401
	Financial fixed assets and participations	13,007	9,970	11,396
CASH FLOW FROM INVESTMENT ACTIVITIES (II)	-43,906	-24,723	-12,197	

CASH FLOW FROM FINANCING ACTIVITIES	BOND ISSUANCE	192,599	259,848	191,765
	OAT	134,934	107,343	74,682
	BTAN	84,647	76,666	57,258
	BTF balance	-26,982	75,839	59,825
	REDEMPTION OF BONDS (excl. BTF)	110,743	125,666	112,851
	<i>Transferable bonds</i>	106,610	124,079	102,583
	OAT	34,342	65,354	41,176
	BTAN	72,267	58,724	61,408
	<i>Non-transferable bonds</i>	4,134	1,588	10,268
	CASH FLOW RELATED TO FINANCIAL FUTURES	-244	256	390
CASH FLOW FROM FINANCING ACTIVITIES (III)	81,612	134,438	79,304	
Net unallocated cash flow (IV)	122	-664	-1,456	
CASH FLOW VARIATION (V = I + II + III + IV = VII - VI)	-64,658	345	25,464	
CASH FLOW AT BEGINNING OF PERIOD (VI)	-20,780	-21,125	-46,589	
CASH FLOW UPON CLOSURE OF PERIOD (VII)	-85,438	-20,780	-21,125	