

**RÉPUBLIQUE FRANÇAISE**



**AUDIT OPINION  
ON THE FINANCIAL STATEMENTS OF  
THE CENTRAL GOVERNMENT**

**FISCAL YEAR 2007**

\* \* \*

	<b>Page</b>
<b>Deliberation.....</b>	<b>III</b>
<b>Introduction.....</b>	<b>1</b>
<b>I – Audit Opinion of the Court on the Central Government Financial Statements for 2007 .....</b>	<b>5</b>
<b>II – Detailed Observations.....</b>	<b>11</b>
<b>A – <i>Lifting of the Limitations, Disagreements and Uncertainties Giving Rise to Three of the Substantial Qualifications of the Opinion on the Financial Statements for 2006.....</i></b>	<b>11</b>
<b>B – <i>Limitations, Disagreements and Uncertainties Giving Rise to the Qualified Opinion on the Financial Statements for 2007.....</i></b>	<b>15</b>
1 – Financial Reporting Systems of the Central Government	15
2 – Internal Control and Audit Systems .....	20
3 – Defence Ministry Assets.....	23
4 – Implementing Partners .....	31
5 – Government Revenues from Taxes.....	34
6 – Specific Fixed Assets.....	38
7 – Public Procedures Account Managed by <i>Coface</i> and Section for Centralized Savings Funds at the <i>Caisse des         dépôts et consignations</i> .....	40
8 – Liabilities Related to Transfer transactions .....	44
9 – Real Estate Holdings .....	48
10 – Cash Accounts .....	51
11 – Contingency Provisions.....	55
12 – Other Determinations of Assets and Liabilities.....	57
<b>III – Report on the Audits Conducted .....</b>	<b>61</b>

## Deliberation

This document was produced by the *Cour des comptes* (also named hereafter “the Court”) within the framework of the role assigned to it by Article 47 of the Constitution, according to which the *Cour des comptes* assists the Parliament and the Government in overseeing enforcement of the Budget Acts.

Within this framework, Article 58-5° of the Constitutional Bylaw on Budget Acts (referred to as its French acronym “LOLF”) assigns to the *Cour des comptes* the task of certifying the regularity, truthfulness and fairness of the financial statements of the French Central Government.

In attendance: Mr Séguin, First President, Mr Pichon, Mr Babusiaux, Mrs Bazy-Malaurie, Mrs Cornette, Mrs Ruellan, Mr Hernandez, Mr Descheemaeker, Chamber Presidents, Mr Sallois, Acting Chamber President, Mr Berthet, Mr de Mourgues, Mr Malingre, Mr Mayaud, Mr Hespel, Mr Hourri, Mr Devaux, Mr Arnaud, Mr Bayle, Mr Bouquet, Mr Adhémar, Mr Rémond, Mr Gillette, Mr Duret, Mr Ganser, Mr Martin (Xavier-Henri), Mr Monier, Mr Troesch, Mrs Froment-Meurice, Mr Pallot, Mr Cazanave, Mrs Bellon, Mr Moreau, Mr Ritz, Mr Freches, Mrs Levy-Rosenwald, Mr Duchadeuil, Mr Pannier, Mr Moulin, Mr Lebuy, Mr Lesouhaitier, Mr Durrleman, Mr Gauron, Mr Lafaure, Mrs Morell, Mr Morin, Mr Braunstein, Mr Brochier, Mrs Saliou (Françoise), Mrs Dayries, Mr Lévy, Mr Bernicot, Mr Deconfin, Mr Phéline, Mrs Darragon, Mrs Colomé, Mr Vachia, Mr Vivet, Mrs Moati, Mr Cossin, Mr Diricq, Mr Lefebvre, Mr Sabbe, Mr Pétel, Mr Valdigué, Mr Ténier, Mr Lair, Mr Hayez, Mrs Trupin, Mr Corbin, Mr Rigaudiat, Mr Ravier, Mr Rabaté, Mr Doyelle, Mr Viveret, Mr Korb, Mrs Dos Reis, Mr de Gaulle, Mr Guibert, Mrs Carrère-Gée, Mr Piolé, Mr Uguen, Mrs Briguet, Mr Zérah, Mr Guédon, Mrs Gadriot-Renard, Mr Martin (Claude), Masters of the Court, Mr Gleizes, Mr Zeller, Mr Limodin, Mr André, Mr Cadet, Mr Blanc, Masters of the Court in Special Service, Mr Alventosa, Master of the Court and General Rapporteur, Mr Lefas, Master of the Court in charge of the external audit teams for Central Government Financial Statements.

In attendance, presenting their observations and participating in the deliberations: Mr Bénard, Principal Attorney General, assisted by Mr Frentz, First Advocate General, and by Mr Feller and Mr Filippini, Advocate Generals.

In attendance as rapporteur and therefore not participating in the deliberations: Mr Blondel, Auditor.

Mrs Mayenobe, Secretary General, provided the Court chambers secretariat.

Concluded at the *Cour des comptes*, on May 21, 2008.

**This report is the result of the work carried out by:**

- Mr Lefas, Master of the Court, and Mr Blondel, Auditor, rapporteurs;
- The magistrates and rapporteurs responsible for subcycles: Mr Lair, Mr Théron, Masters of the Court, Mr Gleizes, Master of the Court in Special Service, Mr Champomier, Mr Colin de Verdière, Mr Guillot, Mrs Latere, Mr Vught, Mr Lion, Mr Thomas, Assistant Judges, Mr Goubault, Mr Rouque, Mr Blondel, auditors, Mrs Charolles, Mrs Girard-Reydet ad Mrs Revcolevschi, Mr Jaillard, Mr Debrosse and Mr Vareille, rapporteurs;
- This work was conducted by Mrs Altbaum, Mrs Assouline, Mrs Barbosa, Mr Benhaïm, Mrs Brimaud, Mr Carreno, Mrs Chaudron, Mr Clappier, Mr Descolonges, Mr Drouin, Mrs El Guerrab, Mr El Mezouaghi, Mr Gidelles, Mrs Guély-Tonnerre, Mr Hauptschein, Mr Hudellet, Mr Le Clézio, Mrs L'Hernault, Mr Mazzocchi, Mrs Moretti, Mrs Muller, Mr Rame, Mrs Raymond, Mrs Roizen, Mr Zérah, public accountants; as well as by Mr Arambourou, rapporteur, Mr Beau, Mr Dintilhac, Mr Drouin, Mr Kulicka, Mr Lévy, Mrs Compagnot, assistants, and also Mr J.Bertrand, Mr Jegou, Mr Marcou, Mrs Chapel-David, Mrs Combes, Mrs Courtade, Mrs Di Luia, Mrs Guardiola, assistants. Mrs Portal, a PhD Intern, contributed to the work;
- In addition, this work included evaluation reports on the accounts following mid-term audits and prepared by the following rapporteurs: Mr Cazanave, Mrs Moati, Masters of the Court, Mr Limodin, Master of the Court in Special Service, Mr Boullanger, Mr Delaporte, Mr Fosseux, Mr Geoffroy, Mr Mouttalib, Mrs Perin, Mr Savy, Mr Sorbier, Assistant Judges, Mr Bredin, Mr Gourdin, Mrs Thiard, Mrs Wirgin, Auditors, Mrs Ameil, Mrs Billet, Mr Elshoud, rapporteurs, Mr Rame, Public Accountant, Mrs Dioudonnat, Assistant.
- The certification act was deliberated by the "Performance of the central Government's budget and accounts" interchamber committee chaired by Mr Babusiaux, in the presence of Mr Alventosa, Master of the Court, and General Rapporteur, Mr De Mourgues, Mr Mayaud, Mr Hourri, Mr Bertrand, Mr Monier, Mr Théron, Mr Pannier, Mr Lefas, Mr Gauron, Mrs Saliou, Mr Tourier, Mr Vachia, Mr Lefèbvre, Mr Hayez, Mrs Briguët, Masters of the Court, Members of the interchamber committee, and Mr Filippini, Advocate General.

## Introduction

*In accordance with the Constitutional Bylaw on Budget Acts (referred to as its French acronym “LOLF”), which took full effect on January 1<sup>st</sup>, 2006, and within the framework of its role in assisting the Parliament as defined in Article 58, the Cour des comptes must submit to the Parliament and make public three documents at the end of spring, following adversarial proceedings.*

*The first document, which is presented here and is also attached to the Budget Review Bill pursuant to Article 58-5<sup>o</sup> of the LOLF, contains the “certification that the Central Government’s accounts are lawful, faithful and present a true and fair view” and is “accompanied by the report on the audits conducted.”*

*The second, submitted before June 1<sup>st</sup> to the Parliament in conjunction with the Budget Review Bill transmitted by the Government, is the report referred to in Article 58-4<sup>o</sup> of the LOLF concerning the outturn and the management of the budget for the previous fiscal year. It analyses enforcement of the Budget Acts in every aspects, including the utilisation of appropriations by mission and by programme in order to assess performance.*

*The third document is the report serving as a basis for the preliminary budget policy debate (“Report on the Situation and Outlook of Public Finance”), as provided by Article 58-3<sup>o</sup> of the LOLF. This report, filed over the course of June along with the Government’s Report on Developments in the National Economy and Public Finance Trends, provides an overall analysis of public finance and its outlook using national accounts data as well as the conclusions of the two previous documents and other work carried out by the Court.*

On May 29, 2007, the *Cour des comptes* certified for the first time that the Central Government Financial Statements as of December 31, 2006 were regular, truthful and fair. The opinion included thirteen substantial qualifications.

In accordance with International Audit Standards, an auditor may not issue an unqualified opinion if he/she has identified material problems. These problems are of two types :

- disagreements with the preparer of the financial statements regarding accounting methods and how they were applied, the relevance of information provided in the financial statements or the extent and scope of uncertainties;
- limitations on the scope of the audits carried out due to circumstances out of the auditor's control and which prevented him/her from carrying out the audits deemed necessary, as long as the procedures consequently engaged in order to collect audit evidence regarding items in the general ledger did not enable him/her to reach a satisfactory conclusion with regard to the financial statement assertions.

It is the materiality and pervasiveness of the disagreements, limitations and uncertainties that may lead the Court to choose between qualified opinion, disclaimer of opinion and adverse opinion.

#### *Aim of Certification*

Certification of the financial statements is defined as the written, reasoned opinion expressed by an independent body whether the financial statements of an entity are prepared, in all material respects, in accordance with an applicable financial reporting framework and with the general principles of regularity, truthfulness and fairness.

The external audit role assigned to the *Cour des comptes* consists in collecting sufficient audit evidence to attest that the Central Government Financial Statements are prepared in accordance with the applicable accounting principles and standards. It aims to ensure the reliability of the information contained in these Financial Statements and to provide reasonable assurance to the Parliament that they do not present any material misstatements prior to the vote on the Budget Review Act. It is subject to a collegiate decision, following adversarial proceedings.

#### *Scope of Certification*

Currently, the opinion issued by the Court refers only to the annual financial statements of the Central Government considered as a legal person and does not yet include the consolidated financial statements, which would involve the integration into the Central Government's statements of all bodies under its control. Currently, it applies only to the financial statements resulting from accrual accounting and in particular to the profit or loss and balance sheets that the Parliament approves in accordance with Article 37 of the LOLF; it does not therefore aim to

provide reasonable assurance with regard to the other two results approved by the Budget Review Act, namely the budget outturn and the final sum of cash resources and charges as shown on the cash flow statement, despite the fact that the latter has all the characteristics of a financial statement.

The reconciliation of data contained in the budget accounting system with that of the accrual accounting system has been achieved to a large extent. However, this reconciliation did not allow for a complete understanding of the way information is transferred from one system to the other. In addition, it remained impossible to connect the use of commitment authorisations with the budget plan and the commitments recorded in the general account.

This finding requires the definition of certain concepts in the cash basis accounting guide currently being prepared by the Directorate for the Budget, in particular the notion of commitment, and render them consistent with those in use in the accrual accounting. The improvement in procedures and, in time, the full deployment of the *Chorus* information system should also make it possible to connect budgetary charges and liabilities more closely and facilitate the reconciliation of data from the two accounting frameworks.

#### *Purpose of Certification*

By aligning the accounting standards for the Central Government with those applicable to the private sector, and by assigning to the Court the role of certifying the Central Government Financial Statements, France has become part of an international movement to modernize the presentation of public accounts. Several other OECD countries have, in fact, opted in recent years to implement similar accounting reforms and have their accounts certified by their Supreme Audit Institution.

The ultimate purpose of the accounting reform is to use the new financial reporting framework provided by accrual accounting, based on an exact and exhaustive patrimonial approach regarding the rights and obligations of Central Government and which will enable it to forecast future liabilities, optimize the management of its assets and measure the full cost of the policies it implements alone or in cooperation with other public administrations. The external audit opinion given on the accounts aims at ensuring their reliability.

*Background Factors Taken into Account for Certification*

In delivering its opinion on the financial statements for 2007, as with regard to the previous opinion, the Court took fully into account the particular context underlying the accounting reform, characterized by tight deadlines and a difficult IT environment. During these first years of external audit, the Court will also take note of the efforts made by the Administration, in particular by the Public Accounts Division of the new Public Finances General Directorate, as well as of the specific, scheduled commitments which the responsible authorities have made in response to problems encountered and which require correction over time.

*Adjustments and Reclassifications Made as a Result of the Court's Auditing Procedures*

In determining its collegiate opinion on the financial statements for 2007, the Court took note of the Administration's responses to its audit observations, either providing useful explanations or giving rise to corrections in the accounting records, which, if they had been allowed to remain unchanged, would have constituted disagreements, some of which major, as illustrated by the three following operations: the manner in which the write-off of part of the Central Government's liabilities towards the general social security system (€5.1 billion) by means of the public debt authority ("*Caisse de la dette publique*") was entered in the accounts; the recording of revenue from the write-off of interest expenses of the financial debt, which had been included in the opening balance sheet for 2006 as a negative asset with a value of €8.4 billion; the entry under "cash and equivalent liabilities" and not "current liabilities" of an overdraft of €842.7 million, as of December 31, 2007, granted to the Government by the bank *Crédit Foncier de France*, responsible for managing the repayment to loan institutions of housing savings credits owed by the Government to savings account holders.

The adjustments and reclassifications requested by the Court are presented in the audit report.

*The Content of the Certification Act*

The first part of the certification act states the opinion of the Court on the Central Government Financial Statements for 2007. The second part discloses matters that affect the opinion. The third one reports on the auditing procedures carried out by the Court in accordance with Article 58-5° of the LOLF.

## **I - Audit Opinion of the Court on the Central Government Financial Statements for 2007**

### **A - Introduction**

**I.1** As part of its role in assisting the Government and Parliament in overseeing enforcement of the Budget Acts pursuant to Article 47 of the Constitution, the Court must, in accordance with Article 58-5<sup>o</sup> of the amended constitutional bylaw of August 1<sup>st</sup>, 2001 on Budget Acts (LOLF), certify the regularity, truthfulness and fairness of the Central Government Financial Statements as of December 31, 2007.

**I.2** Pursuant to Article 54-7<sup>o</sup> of the aforementioned constitutional bylaw, the Central Government's general account includes, as defined by standard 1 of the Central Government's accounting standards, the trial balance, the income statement (made up of the schedule of net expenses, the schedule of net sovereign revenues and the balance on transactions for the fiscal year), the balance sheet (or statement of net position) and its notes, including in particular a valuation of the Government's off-balance sheet commitments, as well as the cash flow statement.

**I.3** The Central Government, as an accounting entity, includes all Government services, establishments or institutions that do not have the status of a corporate entity, whether or not they receive appropriations from the national budget. All of their operations must be included in the Central Government Financial Statements according to the rules applicable thereto, whereas entities representing legal persons are only integrated by means of a fixed amount corresponding to the State's interest therein.

**I.4** The Central Government Financial Statements are prepared, pursuant to Article 30 of the aforementioned Constitutional Bylaw, on the basis of the accounting rules and principles applicable to the private sector, subject to the specific nature of the Government. These rules and principles were set out in the Government's accounting standards approved by the order of May 21, 2004 and amended by the order of April 17, 2007 and March 13, 2008, after receiving the opinion of the Public Accounting Standards Committee. Two new standards are applicable for the first time with regard to the 2007 fiscal year: accounting methods, changes to accounting estimates and errors on the one hand, and events subsequent to the financial statements date on the other.

**I.5** The Central Government Financial Statements are maintained and prepared by public accountants, who oversee the truthfulness of accounting entries and the respect of procedures pursuant to Article 31 of the aforementioned Constitutional Bylaw. This quality requirement with regard to the accounts implies the implementation of an effective and efficient internal control and audit system used by both authorising officers and accountants, as well as the truthful presentation of financial statements free of material misstatements, whether the result of fraud or error. Public accountants are also responsible for the selection and implementation of appropriate accounting methods and for providing reasonable accounting estimates according to circumstances.

**I.6** The Central Government Financial Statements for 2007 were produced and closed by the Public Finances General Directorate on April 9, 2008, after the Court had submitted its observations based on the audits conducted. It was signed by the Minister for the Budget, Public Accounts and the Civil Service on May 20, 2008 and filed in conjunction with the final 2007 Budget Review Bill.

**I.7** The Court audited the financial statements that make up the Central Government's general account, including the notes thereto, and which are filed in conjunction with the Budget Review Bill.

**I.8** The audits were conducted in accordance with the Code of Financial Jurisdictions, to which were added in 2007 procedural rules governing the work of certifying the accounts of the Central Government and of the social security system (Articles R. 137-1 to R. 137-4) and which requires and organises adherence to the adversarial principle and the principle of collegiality.

**I.9** The audits were also carried out in accordance with the International Accounting Standards issued by the International Federation of Accountants (IFAC). However, since the Administration had been authorised, through a decision handed down by the standards committee on December 11, 2006, not to prepare pro forma accounts for the first two of the Central Government Financial Statements, the Court was unable to compare the 2006 and 2007 accounts with those of 2005 as required by international audit standards.

**I.10** The aim of the audits was to collect evidence regarding the accounts and the financial reports provided in the notes to the financial statements and evaluate the accounting policies and material estimates used in closing the Central Government Financial Statements, in order to obtain reasonable assurance that they did not contain any material misstatement.

**I.11** The choice of audits conducted, including the assessment of inherent and control risks, was based on the professional judgment of the Court.

**I.12** After completing its auditing procedures, disclosed at the end of this report (cf. *infra*. III), the Court believes that it collected enough evidence to support its opinion on the financial statements for the 2007 fiscal year.

## **B - Opinion on the Central Government Financial Statements**

**I.13** In its report on the Central Government Financial Statements as of December 31, 2006, the Court included a number of limitations, disagreements and uncertainties, which led it to issue an opinion with thirteen substantial qualifications.

**I.14** Given the action undertaken by the Administration to implement the accounting reform without the benefit of a transitional period, the Court agreed to take into account, in preparing its opinion, the commitments regarding resources and results made in response to the qualifications formulated by the Court on the accounts for the 2006 fiscal year. The Court noted that these commitments have, for the most part, been met in line with planned schedules and have resulted in significant progress having been made. In the light of the updating of these commitments for 2008 and beyond, following several discussions with the Court, this progress could be quickened but requires renewed efforts by the whole Administration. On the other hand, if the Court should become aware that its substantial qualifications are not being satisfactorily addressed over a prolonged period of time, it may reconsider its opinion.

### **1 - Observations**

#### *(a) Lifting of the Limitations, Disagreements and Uncertainties Giving Rise to Three of the Substantial Qualifications of the Financial Statements for 2006*

**I.15** Firstly, the Court believes that the limitations and disagreements which resulted in the three substantial qualifications of the opinion on the 2006 accounts, concerning interest rate swap agreements, the national road system and the accounts of the public authorities, have disappeared and that the number of uncertainties which persist have been reduced to a level which the Court considers acceptable.

*(b) Limitations*

**I.16** The Court encountered several limitations in the scope of its audits, some general and others specific.

**I.17** The general limitations pertained firstly to the Government's financial reporting systems, which did not yet have all the characteristics allowing for a complete audit trail. Secondly, inadequacies in the IT environment had only been partially corrected by the Administration's internal control and audit systems. The deployment of these systems was still in progress and the Court could rely on them only partially.

**I.18** The Court also encountered limitations specific to certain audit areas, which reduced the extent and scope of these audits, in particular concerning insufficient evidence regarding sovereign revenues account balances; the late transmission of the list of concession agreements which is mentioned, for the first time, in the notes to the Central Government Financial Statements and which should in time constitute the inventory of specific tangible or intangible assets; and the lack of any formal accounting control framework for several cash accounts.

*(c) Disagreements and Uncertainties*

**I.19** The Court also noted several disagreements on the accounting methods used or the way in which they were applied, as well as uncertainties regarding the financial statements.

**I.20** One disagreement concerned the amount of the Defence Ministry's assets which appeared on the central Government's balance sheet for a value of €165 billion. The identification of these assets remained incomplete. In addition, the rules for their valuation, whether for assets in service or weapons programmes in progress, as well as the correction of errors carried over to the opening balance sheet did not, in many cases, comply with accounting standards. Finally, the process to inventory and record fixed assets and payables in the correct fiscal year remained unreliable.

**I.21** As in previous years, the Court found a disagreement in the 2007 financial statements concerning the value of the Government's interests in its public policy "implementing partners" (in excess of €56 billion): their inventory remained inadequate and their accounts did not always provide a fair view of their value and in many cases

established after the closure of the Central Government Financial Statements.

**I.22** The absence of any valuation of the effect of carry-over tax obligations also constituted a disagreement, to which was added a strong uncertainty linked to the imperfect application of the accounting guidelines applicable to cash flows and balances for sovereign revenues.

**I.23** The Central Government's specific assets (property provided under a concession agreement and rights linked to the authorisation to exploit the public domain) were not always shown in the accounts in conformity with applicable standards and constituted a point of disagreement with the Administration.

**I.24** As of December 31, 2007, the disagreements raised with regard to the 2006 accounts, concerning the two entities wrongly excluded from the Central Government's balance sheet, had not been resolved. The account of public procedures managed by the *Compagnie française d'assurance du commerce extérieur* (Coface), for which the balance sheet total stands at around €15 billion, was still not included despite the effective control exercised by the Central Government. The savings funds section of the *Caisse des Dépôts et Consignations* was still not shown in the accounts as a Government interest, which resulted in a €7.6 billion decrease on the assets side of its balance sheet.

**I.25** Uncertainties persisted regarding the exhaustive identification and valuation of liabilities related to transfer transactions, the recording of taxes and duties allocated to third parties and the definition of the operative event for the Central Government regarding the liability linked to solidarity payments which do not result from an agreement between the parties but are part of a legally-defined framework.

**I.26** There were uncertainties regarding the identification and valuation of real-estate holdings (€57.2 billion as of December 31, 2007), intensified by a disagreement on the recording of "future" expenditure carried out by the Administration on the holdings in service for preservation or renovation purposes.

**I.27** Another uncertainty concerned the failure to formalise internal accounting controls on the balance of cash accounts for the armed forces.

**I.28** The risks inherent to the activity of the Central Government and which require the inclusion of reserves in the accounts were neither fully inventoried nor correctly valued as of December 31, 2007.

**I.29** Shortfalls in inventory procedures and the incorrect implementation of accounting standards gave rise to an uncertainty concerning certain assets and liabilities accounts (so-called “unallocated” fixed assets, prepaid income by the Central Government under the co-financing of fixed assets and software programmes produced internally).

## **2 - Impact on the Opinion of the Court**

**I.30** In view of the observations above, the Court removes, for the 2007 fiscal year, three of the substantial qualifications that it formulated on the 2006 accounts, relating to interest rate swap agreements, the national road system and the accounts of the public authorities.

**I.31** In view of the observations above, the Court certifies that, with regard to the applicable accounting rules and principles, the Central Government’s general account as of December 31, 2007 is regular, truthful and gives a fair view of the financial position and assets of the Central Government, subject to 12 qualifications described in Part II, the first nine being of a substantial nature.

## **C - Specific Audits and Information**

**I.32** The Court also audited the information provided in the Central Government Financial Statements, as well as the report on internal control prepared by the Administration, without, however, going so far as to issue an opinion on the latter document as it is not required by the LOLF. The remarks and suggestions for changes that the Court made were taken into account, and the Court has no further comment regarding the truthfulness of the information and its consistency with the Central Government Financial Statements.

**I.33** The Court also audited the Budget Statements, useful in order to obtain a clear understanding of the connection between Budget accounting and accrual accounting.

**I.34** On the other hand, the Court did not either conduct audits on the Central Government’s presentation report, which, given its status as a management report, did not enter into the scope of external audit. Nor did it audit the memorandum on the central Government’s accounts, which is a pedagogical document.

## **II - Detailed Observations on the Opinion**

### **A - Lifting of the Limitations, Disagreements and Uncertainties Giving Rise to Three of the Substantial Qualifications of the Opinion on the Financial Statements for 2006**

**II.1** The limitations, disagreements and uncertainties that led to the formulation of three substantial qualifications of the opinion on the financial statements for 2006 are removed with regard to the 2007 fiscal year.

#### **1 - Interest Rate Swap Agreements for Debt Management**

**II.2** The Court had issued a substantial qualification regarding the recording of interest rate swap agreements for debt management. It estimated that the conditions set out by Government Accounting Standard 11 concerning financial debt and financial futures, as well as those presented in banking regulations, were not being adhered to by this system.

**II.3** A working group composed of representatives from the standards committee, the certifying officer and the Administration produced a revision of the relevant areas of Standard 11, which was approved by the standards committee on February 14, 2008 and was the subject of a modifying decree issued by the Minister for the Budget, Public Accounts and the Civil Service on March 13, 2008. These new requirements have made it possible to better characterize the nature of interest rate swap contracts and to specify the conditions for their being entered in the accounts, in accordance with the Court's requests.

**II.4** *Agence France Trésor* has carried out considerable work in documenting, monitoring, strengthening internal control and demonstrating the efficiency of the interest rate swap agreement strategy. The Court's audit of this work confirmed that it ensures that the strategy complies with standard requirements enabling it to be entered in the accounts under specific cover.

**II.5** These changes, and the commitment made by the Administration to have the scope and effectiveness of the work audited by an expert other than the contractual auditor of *Agence France Trésor*, enables the Court to remove for the 2007 fiscal year the disagreement that gave rise to its substantial qualification of the 2006 accounts.

## **2 - The National Road System**

**II.6** The Court issued a substantial qualification of the 2006 accounts based on the unreliability of the method used to value the national road system, which is estimated at the reconstruction cost of the roads depreciated by the amount of repair to the system. This specific asset was recorded in the Central Government's balance sheet for a total of €112 billion as of December 31, 2007, as against €114 billion as of December 31, 2006.

**II.7** Following the first external audit year, the Administration made several commitments regarding the reliability of the valuation of the national road system, which it implemented almost in full over the course of 2007. The audits conducted by the Court showed that the method used to estimate the new reconstruction cost of the system was now satisfactory both in terms of long-term inventory that had not been transferred to local governments as well as expenditures that had been incurred since January 1<sup>st</sup>, 2007.

**II.8** The remaining uncertainties concern the quality of data used to calculate the depreciation of inventories, standing at €2.7 billion, the classification in the accounts of certain categories of expenses and evidence for the balance of outstanding payables. However, these uncertainties are considerably reduced compared to 2006 and concern inventories or annual flows of minor sums. The material revaluation due to use of the annual indexation method regarding the value of the national road system rendered it difficult to obtain clear understanding of changes in the value of the Central Government's assets as presented in the balance sheet but is a consequence of the application of Government Accounting Standard 6 concerning tangible assets. This is a point that could be analysed more closely in the future.

**II.9** Consequently, the uncertainties that led the Court to formulate a substantial qualification of the financial statements for 2006 have been reduced to a level considered acceptable by the Court with regard to the financial statements for 2007. However, the following points continue to require attention :

- Completion of the work to render the balance of outstanding payables completely reliable;
- Preparation of detailed guidelines, for use by all departments, for accounting classification;
- Clarification of the processing of expenditure for major maintenance work on the road network;
- Strengthening of internal control and implementation of an internal audit, without waiting for the implementation of a new information and national road network management system from 2009.

### **3 - The Accounts of the Public Authorities**

**II.10** The Court issued a substantial qualification of the opinion on the Central Government Financial Statements for 2006 regarding the accounts of the Public Authorities (the President of the Republic, the National Assembly, the Senate, the Supreme Court, the Court of Justice of the Republic and the High Court of Justice). This qualification concerned the exclusion of these accounts from those of the Central Government and the inability of the Court to audit them.

**II.11** The Parliamentary Assemblies, which represented the bulk of these accounts, have implemented the commitments undertaken in 2006. In March 2007, each Assembly signed an agreement, each identical in content, with the *Conseil Supérieur de l'Ordre des Experts-Comptables* in order to assist them in implementing these commitments.

**II.12** The budget and accounting regulations and the budget, accounting and financial regulations of the National Assembly, which are based on the French Chart of Accounts subject to exceptions pertaining to their specific nature, were adapted by decree in order to bring them into line with the rules defined in the Government accounting standards.

**II.13** The accounts for the two Assemblies have been included in the Central Government Financial Statements. This increased the net value of the Central Government's assets by €1,679 million for the Senate and €777 million for the National Assembly and increased the net position of the Central Government by €1,650 million and €721 million respectively. The preparer of the Central Government Financial Statements undertook to review over the course of the 2008 fiscal year

the conditions for including pension funds, which, for the Court, constituted assigned assets in accordance with Council of State case law<sup>1</sup>.

**II.14** The limited examination of the accounts of the National Assembly and of the Senate conducted by four audit firms under the responsibility of the *Conseil Supérieur de l'Ordre des Experts-Comptables* was similar to a contractual audit. It included audits of the opening balance sheet, the internal control system in place in each Assembly and the accounts as of December 31 of the fiscal year. In addition, the Senate had its pension commitments evaluated by an actuarial firm in accordance with Government Accounting Standard 13, concerning commitments to be mentioned in the notes; the National Assembly decided to commit itself in a similar procedure with regard to its 2008 fiscal year accounts. The resulting audit reports are included in Part III of this certification act. In particular, the Court had knowledge of, and took into account in its external audit work, the summary of recommendations made by the two audit firms with regard to the internal control system implemented by departments within the Senate.

**II.15** In view of the reports of the *Conseil Supérieur de l'Ordre des Experts Comptables* and the audit firms chosen by it, which attest that with regard to applicable accounting guidelines, no material misstatement call into question the regularity and truthfulness of the accounts and the fair presentation they give of the net income for the 2007 fiscal year and of the financial position and assets at the end of this period, the Court considers that sufficient appropriate supporting evidence for these accounts has been provided in order to enable them to be included in the Central Government Financial Statements.

**II.16** The Supreme Court provided a set of financial statements, which complies with the Government Accounting Standards, to the preparer of the accounts, who referred to them in the notes to the Central Government Financial Statements. The results of the limited examination of these statements, conducted according to applicable accounting standards in France, were transmitted to the Court. No anomalies were found with regard to applicable accounting standards to call into question the regularity and truthfulness of the accounts and the fair presentation they gave of the net income for the 2007 fiscal year and of the financial position and assets at the end of this period.

**II.17** Finally, pursuant to a decision by the President of the Republic, as of the 2008 fiscal year, the Court will extend its audit remit to include the management of the Presidency of the Republic; the latter's

---

1) See ruling of November 5, 1965 (Recueil Lebon, p. 586) and of April 7, 1975 (p. 220).

accounts will be included in the Central Government Financial Statements and audited by the Court as part of its external audit diligences, according to international accounting standards.

**II.18** Consequently, the required conditions were met in order to remove, as regards the Central Government Financial Statements for 2007, the limitations and uncertainties that led to the formulation of a substantial qualification on the accounts of the public authorities.

## **B - Limitations, Disagreements and Uncertainties Giving Rise to the Qualified Opinion on the Financial Statements for 2007**

### **1 - Financial Reporting Systems**

**II.19** The Court issued a substantial qualification of the 2006 financial statements based on the general shortcomings of the Central Government's financial reporting systems, which were not fully adapted to the budget and accounting systems, did not meet computer-based internal control standards and failed to provide systematic links enabling the establishment of an audit trail between the financial statements and the original individual transactions. These characteristics limited the scope of the Court's audit.

**II.20** All accounting data pass through the central Government's information systems and are directed, either directly or indirectly, via the NDC application, into two central applications, CGL and TCC. As of December 31, 2007, these applications contained almost 36 million records and serve to prepare the trial balance and financial statements that constitute the Central Government Financial Statements and that are extracted directly from the centralisation application.

**II.21** The Central Government's financial reporting systems are characterised by a particularly fragmented architecture: 317 applications listed by the *Agence pour l'informatique financière de l'État* (AIFE - Central Government's financial reporting agency), which are often inappropriate with regard to the requirements of accrual accounting. Their adaptation under the temporary IT solution called *Palier LOLF* makes it possible to conduct budget and accrual accounting at the same time thanks to a classification system combining budgetary requirements with those of the Central Government's chart of accounts.

**II.22** In one of its qualifications of the opinion on the 2006 financial statements, the Court insisted on the importance of planned major upgrades to the information systems with the *Chorus*, *Copernic* and *Opérateur national de la paye* (ONP – National Payroll Operator) programmes, with a view to improving the accounting practices.

*(a) Convergence of Systems and Progress Made To Date*

**II.23** The aim of the *Chorus* project is to combine into an ERP all the functionality of the inter-ministerial expenditure and non-tax revenue management and accounting applications, the inventory of real-estate holdings and the ministerial financial management applications. Deployment of the application, due to begin on July 1<sup>st</sup>, 2008, should allow in particular for a better integration of accounting information within current systems, thereby limiting the manual processing of data. The essential improvements linked to this integration will, however, not become effective until the full entry into service of the target *Chorus* system in 2011, at the earliest. During the period of transition, it will be necessary to provide *Chorus* with an interface allowing for the conversion of accounting data into the current format. In addition, deployment of the *Refonte du Système de Paiement* (RSP – New Payment System) under *Copernic*, which will manage all tax collection, will not begin until 2012 and the ONP will not be available before 2014.

**II.24** The information systems will not therefore be profoundly changed over the course of the forthcoming fiscal periods. The Court will follow carefully the Administration's efforts to render the existing systems more reliable.

**II.25** The Court took note of progress made in the framework of the Central Government's accounting action plan implemented by the Public Accounting Department in 2007. This progress led in particular to improvements in the reliability of the production of accounting statements and to the development of automatic controls in the *Palier LOLF* applications. The work undertaken also contributed to reducing risks linked to the operation of key operational systems and to improving the quality of traceability therein. However, the effectiveness and scope of action undertaken still does not fully meet the requirements of external audit work, which should be able to fully rely on the capacity of systems to provide full auditability, as described hereinunder.

*(b) Insufficient integration of information systems*

**II.26** The insufficient integration of current information systems created an uncertainty with regard to the risks resulting from the processing of data and limited the ability of the Court to assess the integrity of data and the completeness and accuracy of accounting records.

**II.27** The often outdated and inappropriate design of applications means that some data has to be restated several times between its creation and final entry in the accounts. As an illustration, the inadequacy of the logistics information system of the Defence Ministry with regard to the requirements of accrual accounting means that data produced must be restated. The way in which these statements are carried out does not guarantee the completeness and correct valuation of fixed assets and inventories recorded on the asset side of the central Government's balance sheet.

**II.28** The work undertaken by the Administration to develop shared identifiers between *CGL*, the central accounting application, and the operational systems has improved the audit trail. However, this work was not complete as of the end of 2007 and does not, in itself, make it possible to mitigate all risks linked to the insufficient integration of systems, as shown by the following examples:

- The *Orchidée* application (used to identify accrued income and expenses) is not structured as an auxiliary accounting system and is not automatically interfaced with the *CGL* application. This infers, *de facto*, the absence of an audit trail and increases the risk of inaccuracy in inventory entries, which represent considerable amounts (see below);
- The lack of an interface between the *STGPE* and *TGPE* applications (used to inventory and value real-estate holdings) with the central Government's expenditure and accrual accounting applications, along with the limited number of automatic controls, prevented from reconstituting or auditing events affecting the size and value of real-estate holdings in 2007;
- Disparities were found in the final accounts for the fiscal year between the general account and the itemised lists of outstanding receivables produced by the *RAR* application, illustrating the inadequate integration of the two systems. This situation limited the ability of the Court to conclude as to the

reliability of the outstanding receivables recorded in the asset side of the central Government's balance sheet;

- In the framework of *Palier LOLF*, the central Government's financial reporting systems do not specifically show internal transactions within the central Government (transactions carried out between the general budget, the supplementary budgets and the special accounts). The specific actions undertaken to identify and inventory these transactions with a view to neutralising them in the central Government's general account are not yet satisfactory.

*(c) Lack of standard, common guidelines*

**II.29** The insufficient nature of common guidelines for all systems and users prevents from guaranteeing the uniform processing of accounting data. For example, the inventory and valuation of non-tax revenue by different users of the *REP* application, which monitors the recovery of central Government receivables, are not based on an automatic process shared by all users of the system. In the absence of an adequate level of blocking controls, required data fields, consistency checks, standardisation and securisation of accounting entries, the *Orchidée* application does not guarantee the uniform and systematic inventory of programme measures giving rise to the recording of expenditure or reserves.

**II.30** Similarly, Defence Ministry refunds were found to be lacking in homogeneity as the different departments used data from their logistics information systems, which apply specific reporting thresholds adapted solely for the purpose of the logistical monitoring of fixed assets and inventories.

**II.31** The disparate nature of guidelines and their inadequate integration into applications prevented the Court from certifying that the different accounting rules used represented a coherent whole. Over the course of 2007, 251 new, often *sui generis*, accounting rules were found to have been entered in the *CGL* application, representing cash flows in excess of €10 million each.

**II.32** The 2006 closing balance brought forward to 2007 (including correction of errors and changes to accounting methods) was wrongfully subject to several manual adjustments as of 1 January 2007, contrary to the principle of prior period adjustments with regard to the opening balance.

*(d) Inadequacy of control tools available to the Court*

**II.33** Audits conducted by the Court must be based on control tools enabling it to ascertain the respect of audit assertion applicable to accounting entries.

**II.34** The *India LOLF* data warehouse should in theory constitute the key tool. The availability and quality of data from the data warehouse were considerably improved in 2007. Notwithstanding this fact, the tool continues to suffer from material limitations. The scope of the data warehouse is narrow. Its features are such that it is unable to process all queries at a national level required by the Court. In addition, the results of some automated queries in *India LOLF* do not tie in with the accounting data; this is particularly true of the base used to calculate the depreciation reserve for non-tax revenues.

**II.35** The lack of traceability of transactions entered in the *REP* application, the poor availability of its statistical register module and the lack of uniformity concerning recovery control procedures in the general cash accounts prevent from obtaining reliable data concerning the recoverability of non-tax revenues reliable.

**II.36** The inadequacy of the automatic control of data in the applications requires the implementation of manual controls, but these were too numerous for the Court to ascertain their effectiveness. This situation limited, for example, the scope of audits conducted by the Court on the 2.7 million manual entries in *CGL* over the course of the 2007 fiscal year. None of the controls in place in order to mitigate risks linked to the interfacing of the *PAY* application, which processes the payroll of more than two million civil servants, with the systems which feed into it and with central Government's accounts are automated. Ministries do not use the control files systematically. The reporting tools do not make it possible to link *PAY* data to accounting entries in *CGL*. The work carried out in this area has not yet made it possible to determine a complete audit trail given the technical limitations and the complexity of the applications concerned.

**II.37** The lack of entry "matching" in the *CGL* application prevents from linking negative entries with those being cancelled. Given the high number of these entries, the lack of any automatic trace obliged the Court to review all entries in the accounts, a difficult task given the deadlines imparted in the framework of final work on the accounts for the period. In addition, the Court should have been able to rely on supporting documents for balances contained in the closure files to perform this review.

**II.38** The inadequate reliability of entry codes in the *CGL* application presented an obstacle to the Court in correctly identifying categories of entries. The volume of entries under consideration limited the sufficiency of the evidence collected in this area and required the carrying out of manual reviews.

**II.39** The production of usable key accounting statements in the framework of external audit constitutes a determining factor in the establishment of an audit trail and in the valuation of certain inventory entries. Despite efforts undertaken by the Administration, this remains inadequate in some applications. For example, the multiplicity and design of management statements in *MEDOC* prevents from conducting a satisfactory control of the accounting entries in *CGL*.

*(e) Conclusion*

**II.40** The nature of current information systems and the risks pertaining to them required the implementation by the Administration of many controls, the effectiveness of which the Court was not able to assess. The insufficient extent to which these controls may be audited constitutes, for the Court, a substantial limitation to the scope of its audits. These findings should, however, be considered in the light of the considerable action undertaken by the Administration to resolve this limitation, without the benefit of a transitional period between the entry into force of the accounting reform and the first certification of the accounts and without invoking the “EDP escape clause”.

## **2 - Internal Control and Internal Audit Systems**

**II.41** The Court has expressed a substantial qualification concerning the Government’s accounts for the 2006 fiscal year based on weaknesses in the provisions for internal control and internal audit of the Administration.

*(a) Internal Control*

**II.42** Internal control may be defined as the set of provisions or organized processes which are formalized and permanent, selected by the management and implemented by the Administration at every level to control the functioning of their activities so as to give reasonable assurance that their objectives will be realized. Since this involves accounting and financial procedures, the objectives which are of interest to the manager, the accountant, and the Court are the regularity, and faithfulness of the entries as well as their conformity to the facts to be described (fair view).

**II.43** In general, the system for internal accounting and financial control, whose implementation is continuing, was, during the 2007 fiscal year, insufficiently effective and efficient throughout the Administration to compensate for the structural weaknesses of the IT environment and lower the risk of material errors to a reasonable level.

**II.44** During the course of the 2007 fiscal year, a significant stage was reached in terms of conception, development and comprehension of the usefulness of the system for internal accounting and financial control. Relying generally on the tools proposed by the Public Accounting General Department and in connection with a structured and planned step, by means of the Ministerial Action Plans, the Ministries have pursued the work of documenting internal control and, in a certain number of cases, have drawn organizational conclusions concerning this work by reconfiguring, for example, the lines of expense, or by improving the forms of inventorying and follow-up of disputes. The positive effects of the actions for strengthening the internal control system carried out by the Treasury and Economic Policy General Department provide for noticeable illustrations of this dynamic.

**II.45** Likewise, it was possible to observe an extension of the scope of the internal control system upstream from management documents, particularly in connection with strengthening the legal quality of the documents. The contribution made by internal control to improvement of management and performance were better perceived in the numerous ministries. However, the work conducted during the 2007 fiscal year will in many cases begin to make its good effects felt only on the accounts for the fiscal years of 2008 and following.

**II.46** The reports made by the Court for the Defence Ministry illustrate the problems of the effectiveness and efficiency of the internal control system. Accordingly, an instruction signed on December 13, 2007 specifies the setting up of a control system for internal accounting at that Ministry which is complete and consistent, which makes possible both an effective follow-up to the action plans and an adaptation of the system based on the determination of the risks. This system, which was known by the administrative departments of the Ministry before its formal approval, began to be implemented at the end of the first quarter of 2007. However, it had only limited effects on the quality of accounting data for the 2007 fiscal year. Furthermore, the plans for control specified by the Public Accounting General Department on the data included in the balance sheet have not been implemented uniformly by those responsible for the inventory of the Ministry.

**II.47** The limits of the Structured Control of Expense (known as CHD, after its French acronym) which, since 2004, has been exercised by the public accountants for payment of expenses and is based on an adjustment of the control according to asset risks linked to the type of operations and the practices of the officials in charge of public expenditures and payment authorization, provide for another illustration. Auditing procedures of the Court, at the Centralizing Public Treasury local offices, show discrepancies with respect to the national rules of return to the exhaustive control which are not always proven in risks analysis. Persistent errors of codification of contract expenses by officials in charge of public expenditures and payment authorization and gaps in the supervisory control have been raised. What also emerges from control of documents, on the basis of a statistical sampling representative of authorizations and liquidation files, is a lack of traceability of certification of the “service made” under the authorizations (in 60 per cent of the cases sampled) and an underestimation of the error rate in accounting entries. The Court accordingly showed an error rate for entry (3.64 per cent, of which 0.62 per cent was material) which was significantly greater than that which results from the CHD (unique rate of 0.44 per cent). This gap shows that the CHD system, which pursues its own ends, does not determine the errors in accounting entries with sufficient reliability, considering the methods implemented.

*(b) Internal Audit*

**II.48** The internal audit is an independent and objective activity which gives an entity a reasonable assurance on the extent to which its operations are under control. It ensures the quality of the internal control of that entity and provides advice on improving it.

**II.49** The persistent weakness of the internal auditing within the Government departments implies that the ministries are not able to be reasonably assured as to the reality, effectiveness and efficiency of their systems for internal accounting and financial control and of reporting about it to the Court.

**II.50** During the course of the 2007 fiscal year, no Ministry, with the exception of the Ministry of Agriculture, had a department providing operational internal audit on a ministerial scale likely to contribute significantly to controlling the risks throughout the fiscal period.

**II.51** Despite their usefulness, the accounting and financial audits carried out in partnership with the Mission for Audit, Evaluation and Control of the Public Accounting General Department and the ministries do not suffice to compensate for the weakness of the internal audit general framework.

**II.52** The Ministry for the Budget, Public Accounts and the Civil Service has three departments for administrative internal auditing which meet the requirements of International Auditing Standards related to the taking into account of their work by the Court (the Mission for Audit, Evaluation and Control of the Public Accounting General Department; the Mission of Expertise and Liaison of the Tax General Department; and the Investigation Division of the Customs and Duties General Department). However, on the scale of the Ministry of Economy, Industry and Employment and of the Ministry for the Budget, Public Accounts and the Civil Service, there is a lack of an organized internal audit function capable of evaluating risk control of certain departments which have strong financial stakes, such as the Treasury and Economic Policy General Department and the General Department for Firms.

**II.53** The two ministries have confirmed their intention of setting up an audit committee in 2008 which will have jurisdiction on all the Departments. It will be chaired by the Secretary-General of both ministries and all the departments and oversight bodies of the two ministries will be represented in it. It will rely on the work of the three internal audit services mentioned above.

**II.54** Within the Defence Ministry, the internal audit has developed in the Air Force but was not yet operational at the full ministerial scope throughout the 2007 fiscal year. However, at the end of 2007, an audit committee, attached to the Ministry and chaired by the Head of the Office of General Control of the Armies, was created. Its permanent secretariat was in charge of formalizing the ministerial internal auditing frame of reference in 2008. The internal auditors began their work during the course of the first quarter of 2008. This structuring of the ministerial internal audit function constitutes a positive change in the system of evaluation and control of accounting and financial risks.

### **3 - Defence Ministry Assets**

**II.55** The assets of the Defence Ministry, not including lands and buildings, stand in the accounts of December 31, 2007 at €165 billion.<sup>2</sup>

**II.56** With regard to the opinion issued on the financial statements of the Central Government for 2006, the Court made a substantial qualification based on a disagreement with the Ministry on the accounting rules and methods used to account for assets of the Defence Ministry.

---

<sup>2</sup> €186 billion with the real estate assets of the Defence Ministry.

**II.57** The Defence Ministry had been committed to implementing several actions aiming at improving the procedures and quality of the accounting data over a period of three years. This three-year plan, which was actually followed in 2007, partially meets its commitments.

**II.58** Significant progress has been made by the General Delegation for Armament (DGA) with regard to the valuation of tangible and intangible assets in progress and weapons programmes development costs. The objective of valuating half of the work-in-progress on the basis of a contract-analysis method has been reached. The lump-sum method, still used to value the other half of the work-in-progress, has been improved for the largest operations, by using budgetary data sorted by operation. The budgetary and accounting data entry forms were created and used as of January 1<sup>st</sup>, 2008 to support the payments for the new contracts and provide guidelines as to the accounts to which the payments are to be posted. The notion of “service made” has been clarified, which has permitted to recognize in income the advance payments made by the DGA for weapons programmes.

**II.59** Several categories of assets which were excluded from the ending balance sheet for 2006, due to their complete or partial absence in the information systems have been included in the ending balance sheet for 2007. The same applies to: hulls and inventories on board ships of the Navy; aircraft due to be dismantled; inventories of the army managed by SIMMAD (French acronym for Integrated Structure for Maintenance in Operating Condition of Aeronautical Defence Equipment); and certain replacement parts of the DCMAT (French acronym for Central Administration of Equipment of the Army). In addition, the vectors of strategic missiles delivered to the armies have been accounted for. The impact of extensions of the scope of military equipment may be estimated based on data of the Ministerial Accounting Department at a gross value of €5.3 billion and a net value of €1 billion as of December 31, 2007.

**II.60** Lastly, work has been conducted on the accounting principles and methods, particularly in connection with the contract for external assistance set up by the Finance Division of the Ministry.

**II.61** This progress must not overshadow the fact that all commitments made for the year 2007 have not been respected, and numerous and major uncertainties remain.

*(a) Scope of the Tangible Asset and Inventory Identification Process*

**II.62** Despite the extension of the scope of asset identification process in 2007, several categories of assets remain excluded from the inventory records. This is particularly the case for fixed assets and inventories made available to manufacturers by the Government for production and maintenance of military material (“Government inventory”). The amount involved is provisionally estimated by the Court at a gross value of between €4 billion and €5 billion. The Defence Ministry had committed itself to defining the accounting methods for the Government inventory before the end of the year 2007. This commitment has not been met.

**II.63** Three satellites appear in the accounts. A fourth satellite will be entered into the accounts in 2008. Equipment placed nearest the end users, others which are classified by NATO and which logistical information systems do not make it possible to inventory, have not yet been entered into the accounts. The same goes for fixed assets in service with the Navy (other than ships) and especially harbour engines, test beds and vehicles. Lastly, certain “secret” assets will have to be inventoried by means of specific reporting procedures compliant with the requirements of National Security.

**II.64** In the absence of reconstruction of the costs of development for the weapons programmes terminated before January 1<sup>st</sup>, 2006, the scope of the intangible assets in service linked to the weapons programmes, which presently comes to €20.5 billion, is not exhaustive.

**II.65** The procedures implemented will not make it possible to ensure that all holders of assets have been identified and have established computerized inventory files. Several departments have not transmitted a book inventory. The Defence Ministry had intended that all persons in charge of inventory hand over a declaration of conformity, including in cases where they are not declaring any assets, so as to ensure completeness of the inventories. This provision has not been implemented.

*(b) Valuation of Assets in Service*

**II.66** The gross value used in the Government balance sheet for the equipment in use at the Defence Ministry represents €79 billion. Its net value is €31 billion. Inventories have a gross value of €35 billion, depreciated to €3.5 billion.

**II.67** The vast majority of the military fixed assets and inventories do not abide by the rules of valuation specified by the Government Accounting Standards.

**II.68** In general, the equipment and inventories are valued on the basis of information contained in the logistical information systems. These values do not meet the requirements of Government Accounting Standards 6 and 8, which specify that acquisitions in exchange for payment are valued by their acquisition cost. The values coming from the information systems correspond, for the most part, with unproven prices, recorded on unknown dates and which, most of the time, have been the subject of an update to give a realistic replacement value, as specified in Article 4 of Decree No. 90-144 concerning the accounting for defence equipment.

**II.69** In certain cases, the replacement values are estimated values (book prices, equipment catalogues, etc.) which may be partially audited. In other cases, for assets prior to 2006, the invoices prove in practice to be very difficult to find again. For acquisitions of 2006 and 2007, the supporting documents were not systematically collected. In addition, the logistical information systems are often not capable of valuing the inventories in accordance with one of the two methods specified by Government Accounting Standard 8: method of weighted average unit cost or the first in, first out method.

**II.70** Only five kinds of equipment with a gross value of about €9 billion have been valued in the inventories as of December 31, 2007, according to the unit costs calculated by the General Delegation for Armament (DGA), while the Ministry had committed itself to account for these values at each accounting period end for all equipment in service coming from a programme valued by the DGA according to a cost method. The Ministry had announced to the Court that in 2007 it would analyze some weapons operations with a substantial volume that ended before the beginning of 2006, which could not have been done.

**II.71** The accounting treatment for missiles and principal replacement parts must again be defined. Currently inventoried as stocks in the armies (but frozen as work-in-progress of the DGA), their reclassification as fixed assets means a decrease in their net value due to the depreciation which would be applied.

**II.72** The length of time for depreciation of numerous kinds of equipment did not, at the beginning of 2006, correspond to their probable length of use. Following the audit observations made by the Court for the 2006 accounts, the Ministry had undertaken to make the necessary adjustments to the principal assets at the time of the 2007 closing. Few corrections were made in 2007. The net values of much equipment thus remain undervalued.

**II.73** The depreciations intended to report the losses in value of the tangible assets have only rarely been inventoried and entered into the accounts. More extensive depreciations have been recorded for the inventories in the principal departments holding equipment. The rates of depreciation for the different departments, however, prove to be varied.

**II.74** The scope of accounting for provisions for dismantling expenses for military equipment has remained very limited in the financial statements for 2007. It involves only the equipment and inventories already withdrawn from service by the three main departments which hold assets.

*(c) The Weapons Programmes in Progress*

**II.75** The amount of equipment and military developments in progress on the ending balance sheet for the 2007 amounted to €25.7 billion, including €15.5 billion for tangible assets and €10.2 billion for intangible assets. These fixed assets were in large part produced by the DGA.

**II.76** The valuation on the balance sheet for the 2007 closing of these fixed assets as well as those of the intangible assets in service which come from the weapons programmes of the DGA in the process of realization have been made based on an estimate for the DGA closing as of January 1<sup>st</sup> of the year, to which were added the budgetary transactions recorded during the year, although they cannot be reconciled with the accounting method of the DGA. Therefore, the accounting data for the end of the fiscal year does not correspond to the estimate of the cost of weapons operations made by the DGA as of December 31, 2007.

**II.77** The valuation of work-in-progress at the beginning of the 2007 fiscal year has given way to corrections on the opening balance-sheet of about €8.6 billion.

**II.78** The budgetary flows for the year have been shown by taking into account the nature of each contract item, on a very different basis than that of the DGA, which makes entries based on purpose with the goal of reconstructing all of the costs pertaining to a principal deliverable item.

**II.79** The outflows for work-in-progress, which correspond to equipment put into service, have been valued based on army computerized inventory files with valuations that are not reliable or consistent with the calculations of work-in-progress carried out by the DGA. Since the missiles and major renovations of equipment were accounted for as fixed assets in progress, but were not made fixed assets

in the armies, no putting into service was reported in the corresponding weapons programmes. Therefore, the increase in tangible and intangible assets in progress of €4.8 billion over the fiscal year appears in great part linked to the accounting difficulties.

**II.80** The procedure for closing the accounts for the DGA operations in 2007 experienced difficulties linked, on the one hand, to delayed reconstruction of data, with numerous successive corrections on the part of the DGA, and on the other hand, to the impossibility of reconciling the budgetary flows and the inventory counts of work-in-progress of the DGA.

**II.81** Furthermore, the commitments made by the DGA concerning the human resources to be implemented to carry out the valuation work were not entirely kept, which explains in part the delayed production of the accounting data.

**II.82** The target method of accounting for the DGA weapons programmes is founded on the analysis of contracts and aims to identify expenses, work-in-progress for tangible and intangible assets and valuation of the main deliverable items. This method relies on an auditable analysis of the acquisition costs of the weapons equipment. In its present version however, this method does not allow to value all of the fixed assets and inventories which are produced in connection with a weapons operation and recorded in the armed forces inventories or made available to manufacturers (test beds, simulators, main replacement parts, exchange lots, tool lots, etc.). It does not make it possible either to value the components of a complex fixed asset as will be necessary after the expected modification of Government Accounting Standard 6 which would introduce accounting by component.

**II.83** While awaiting the complete implementation of this method and the systematization of the budgetary and accounting data entry forms, two temporary methods have been suggested. For the principal weapons operations, the budgetary follow-up documents allow only a poor estimate of the work-in-progress and main deliverable items. This method, although it uses unreliable budgetary data, does, however, make it possible to comprehend the financial quantities to be inventoried. For all of the other operations, the overall method implemented does not use any reliable statistical base and is the origin of very strong uncertainties.

**II.84** The Defence Ministry has committed itself to completing the accounting treatment of the weapons operations by the contract-analysis method for the 2009 account closing. On that due date, it would therefore be substituted for the fixed methods for all of the DGA work-in-progress, except for a residual part of the various operations for which the volume and treatment method will remain to be considered.

**II.85** Lastly, the application of the lump-sum method for the majority of the work-in-progress for intangible assets (€10.2 billion on the balance sheet coming out in 2007) and service developments (gross value of €20.5 billion and a net value of €11.2 billion) continue to pose a problem of compliance with Government Accounting Standard 5, which does not specify the possibility of having recourse to such methods.

*(d) Closing Procedures*

**II.86** As in 2006, the annual budgetary flows and the inventory files could not be reconciled, due to the difference in accounting thresholds between both sources.

**II.87** The principles of budgetary accounting have not been brought in line either between departments or between the end of the fiscal year inventories and yearly flows as budgetary and accounting data entry forms are yet to be generalized. At the end of the fiscal year, this situation resulted in establishing accounts called “not broken down” and not proven, which regroup flows which could not be reconciled and uses overall corrections made in the opening balance sheet in order to adjust the accounts as of December 31, 2007 according to the data of the computerized inventory files at the end of the fiscal year.

**II.88** Consequently, the correction of errors made to the opening balance sheet were not entirely identified and justified, contrary to the terms of Government Accounting Standard 14, and the opening balances as well as transactions recorded in the auxiliary accounting systems did not coincide with the general balance.

**II.89** In addition, the closing procedures, which rely on simple spreadsheets and treatments which are largely manual in the aggregation and preparation of entries for use of the Ministerial Accounting Unit, include a high risk of error.

**II.90** Certain accounting treatments in particular concern inflows and outflows which rely on coded comments which must appear in the computerized inventory files, which have not been systematically or not correctly reported by the departments, thereby making the entries associated with the inventories incorrect.

**II.91** The implementation of files for permanent audit purposes was to contribute to making the closing operations reliable. However, these files have not been updated within a time period that permits their use for work of external audit. The delayed date of availability of the computerized information files also constituted a limitation on the scope of the Court's audits.

**II.92** Lastly, the process of inventorying the fixed assets and payables that pertain to the fiscal year was not always reliable. The risk of double entry for expenses to be paid which correspond to fixed assets in service and the data included in the inventory files has not been treated. The services carried out before the end of the fiscal year but not invoiced were rarely inventoried.

*(e) The Accounting Frame of Reference*

**II.93** For the year 2007, the Defence Ministry had committed itself for the year to carrying out, in liaison with the Public Accounting General Department, works involving the synchronization of accounting entry levels which differ in the follow-up of material in the logistical information systems, the accounting rules applicable to assets in the inventory files, and accounting for the budgetary flows. This commitment has not yet been held.

**II.94** It had also committed itself to clarifying the accounting treatment of military assets related to the weapons operations conducted under international cooperation, the subsequent expenses of general maintenance, major inspections and major renovations, the end of life treatment and the accounting principles for fixed assets or stocks of missiles and principal replacement parts. In addition, it was to participate in the study concerning fixed asset accounting by components not now listed in Government Accounting Standard 6. The discussions effectively undertaken between the Defence Ministry and the Public Accounting General Department in 2007 on the different subjects related to accounting treatment have not led to any formal decision resulting in an accounting procedure applicable to the financial statements for 2007.

**II.95** The course agreed on with the Public Accounting General Department finally specified giving priority to the study of the accounting treatment of expenses for the nuclear domain under auspices of the Atomic Energy Commission (AEC). The detailed conclusions of this work have not yet been given to the Court.

*(f) Conclusion*

**II.96** All things considered, the incorrect application of various accounting rules and methods results in a substantial disagreement with the Administration. The principal discrepancies with respect to the accounting frame of reference are valuation of assets, incompleteness in scope and the closing process for the accounts.

**II.97** The commitments of the Defence Ministry must be updated and prioritized in order to give priority to the issues with the highest stakes. The expected results and the schedule for their implementation have not been adequately specified.

#### **4 - Implementing Partners**

**II.98** Government Accounting Standard 7 defines the “implementing partners for governmental policies” as entities equipped with legal status (public institutions, political interest groups, associations, etc.) having a non-commercial activity under strict control of the Government, which contributes a majority of their financing. As of December 31, 2007, 802 implementing partners were listed in the Government’s general account (as opposed to 789 on December 31, 2006). The Government’s holdings in these entities were recorded in the assets of the balance sheet in the amount of €56.1 billion after taking into account the equivalence margins as of December 31, 2007 (as opposed to €53.7 billion as of December 31, 2006). They represent about a third of its participations.

**II.99** In connection with the opinion issued on the financial statements of the Central Government for 2006, the Court expressed a substantial qualification concerning the accounts of the implementing partners.

**II.100** The Ministry for the Budget, Public Accounts and the Civil Service had committed itself to improving the quality of the implementing partners’ accounts in a systematic manner, by launching several large scale projects for:

- Ensuring reliability of the real estate that they control;
- Making inventory of the claims against and debts to the Government;
- Diffusing data warehouses to accelerate centralization of their accounts;

– Developing internal control within them and signing of protocols for accounting and financial modernization with the most significant among them.

**II.101** In 2007, these projects, which were to be implemented on a multi-year basis, continued and developed. However, the effects did not yet make it possible to fill the structural gaps observed during the previous closing. These gaps involve the reliability of the accounts of the implementing partners, their ability to send them within time limits compatible with the closing of the Government accounts, and their identification.

*(a) Quality of the Implementing Partners' Accounts*

**II.102** The quality of the accounts of the great majority of implementing partners remained very inadequate. Three of the weaknesses which affect them particularly should be pointed out: accounting for assets, assumption of new procedures for liabilities and internal accounting control.

**II.103** The accounts of a number of implementing partners do not give a fair view of their assets. The identification and valuation in their accounts of assets which have been granted to them by the Government show material inadequacies (Paris Universities IV and XI, Institute for the Public Domain and Versailles National Museum, etc.). Of the expected first group of 77 implementing partners, only eight were able to complete the asset identification and valuation process, and 18 could partially do so. Divergent practices of application were often observed (accounting date, kinds of depreciation, etc.).

**II.104** Material inadequacies were uncovered in the identification of liabilities and risks linked to the activity of these institutions and commitments contracted in connection with multiple year agreements (National Centre for Spatial Studies, National Centre for Scientific Research, National Health and Medical Research Institute, National Agency for Research, etc.). In this regard, major differences in accounting treatment between implementing partners were observed (Agency for Financing Transport Infrastructures of France, National Agency for Urban Renewal, Agencies for Water, etc.).

**II.105** The accounting internal control systems for the majority of the implementing partners are still too embryonic to offer any reasonable assurance that their financial statements do not include any material discrepancy. The conditions for improving internal control have not yet been established (incomplete nature of the frame of reference, insufficient involvement of all stakeholders).

*(b) The Time Periods for Transmission of  
Implementing Partners' Accounts*

**II.106** The share of the implementing partners which are not in a position to transmit their Financial Statements within the time limits compatible with the closing of the Government accounts remains too high and decreases only slowly. Nearly half of them (as opposed to two thirds on December 31, 2006), representing 41 per cent of the value of the implementing partners in the Government holdings (as opposed to 38 per cent as of December 31, 2006), could not produce their 2007 accounts within the time periods required for Government accounting operations at the fiscal year closing. Their valuation could therefore be made only on the basis of the 2006 accounts. This possibility, although offered to the preparer of the Financial Statements by Government Accounting Standard 7, should, however, progressively be the exception, considering the requirements of the schedule given by LOLF, which obligates implementing partners as well as the Government. This is obviously not yet the case. Such a situation degrades the fair view given in the balance sheet for Government financial holdings.

*(c) Identification of the Implementing Partners*

**II.107** The methods for drawing up the list of the entities having the status of an “implementing partner” altered the quality of the identification process, as indicated by the numerous anomalies identified in the Central Government financial statements as of December 31, 2007 (entities meeting the criteria defining the status of implementing partner but not in the listing or, the opposite, not meeting the criteria but with their status as an implementing partner maintained).

**II.108** The identification process presents weaknesses in terms of tools (absence of data base), methods (cross-referencing with other lists of entities which may meet the criteria, such as various entities of the central Administration for national accounting or associations subsidized by the Government) and internal control (lack of traceability of the classification decisions). These weaknesses resulted in the inability of the Administration to account for the inclusion and exclusion of several entities in and from the list during the 2007 fiscal year and to provide an analysis of the respect of classification criteria on a list submitted by the Court of 50 entities not included as of December 31, 2007.

**II.109** The division of responsibilities between different Central Government Departments means that the Public Accounting General Department is in practice largely deprived of control over the methodology and results of the identification process of implementing partners.

**II.110** Interpretation of the classification criteria of Accounting Standard 7 is neither consistent nor formalized, which makes the list of implementing partners uncertain.

*(d) Conclusion*

**II.111** All of these gaps lead to the same conclusion as in 2006 of a substantial disagreement with the Administration over the fixed asset value of the implementing partners in the Central Government Financial Statements as of December 31, 2007.

**II.112** The Ministry for the Budget, Public Accounts and the Civil Service intends for the period of 2008 to 2010 to pursue all of the prioritized areas for promoting the reliability of the implementing partners' accounts as previously discussed, in liaison with the ministries for supervision. It has also committed itself to continuing the study begun with respect to synchronizing the accounting standards applicable to the Government and the implementing partners and to preparing the later phase of consolidation of Government accounts with those of said entities. All the ministries having implementing partners under their supervision should intensify their contribution to the realization of these goals.

**II.113** An exchange of letters between the Court, the Mission for Audit, Evaluation and Control of the Public Accounting General Department, and the General Economic and Financial Control should occur soon so as to put procedures for internal audit of implementing partners in place.

## **5 - Government Revenues from Taxes**

*(a) Tax Losses Under Common Law To Be Reported In Advance*

**II.114** In its qualified opinion on the Central Government Financial Statements for 2006, the Court had expressed a substantial qualification with regard to the lack of accounting for the effects of corporate tax losses. In fact, the report of a tax loss by the entity subject to tax engenders for itself or for the parent company of the group of which it is a part, the possibility of deducting it from taxable profits later

declared, without time limitations. The Court observed the necessity of a provision for contingencies and losses. The Administration disagreed, stating that, on the part of the companies, there was no basis for the recognition of a tax receivable from the Government, but only the accounting for the possibility of a future decrease in taxable income.

**II.115** The Court noticed that this issue regarding corporate tax, which could not be clarified at the end of the 2007 fiscal year, also concerns income tax. The overall loss of taxable revenue and certain partial losses are likely to be carried forward, according to a mechanism similar to that of corporate tax loss carry forward, although limited in time. The same reasoning leads to the same consequences concerning the commitment for reporting and the accounting treatment to be applied.

**II.116** The Court considers that the accounting treatment of these various situations must also result, upon recognition of the loss, in valuation and recording of the benefits gained by the taxpayers. The Government Accounting Standards in fact specify that “accounting is based on the principle of reporting rights and obligations” and that “the operations must be accounted for within the fiscal year” to which they apply, independently of their date of payment or receipt.

**II.117** The losses are known by the Administration, as they are given in the taxpayers’ tax forms. The Government’s liability is confirmed when the finances of the taxpayer improve. The exact amount of the liability is known, and the lack of tax revenues to be withheld is certain.

**II.118** The effects of the tax losses that can be carried forward must therefore be entered into the Government accounts as a portion which will have to be estimated and which will correspond to the resulting decrease in tax revenues during the year in which the taxpayer requests a tax refund.

**II.119** The Committee for Public Accounting Standards has created an ad hoc working group. In the notes to the financial statements, the Administration has presented information concerning the losses entered for the last three years. This information remains limited to corporate tax, furnishes only the average for the last three years and does not value the effect of losses likely to be carried forward.

**II.120** In the present state of the accounting frame of reference, a substantial lack of agreement persists concerning the proper accounting treatment of losses that are reported in advance.

*(b) The Weaknesses of the Chain of Accounting Controls*

**II.121** The Administration had to adapt its procedures and information systems to go from one management system almost exclusively based on cash to an accounting system of reported rights. For 2006, upon the request of the Court, procedures were developed, particularly for itemizing, valuing and accounting for inventory entries (statistical valuation of the provisions for tax disputes, evaluation of the liabilities for tax loss carry forward, interim closing of the revenue accounts and tax expenses).

**II.122** With regard to all audit assertions which are the basis of the opinion to be issued (completeness, cut-off, accuracy, valuation and understanding of the accounts involving tax), these arrangements have not been systematically accompanied by the setting up of an accounting control system for operations. The verifications performed by the Court have led it to formulate some thirty audit observations, concerning stakes from some tens of millions to fifteen billion euros, of which a great part has not been accounted for. They do not so much attest to inadequacies of poor application of the accounting frame of reference but testify to the significantly poor functioning of the chain of control of accounting information, from information management by the certifying officer to entry accounting by the accountant.

**II.123** As for the accounting for accrued income, the Administration only partially complies with the matching principle provided for in the Government Accounting Standards, due to lack of immediate availability of the information in the information systems for taxes on businesses (MEDOC) and individuals (ILIAD). The entries of accrued income only very rarely come from data processed by these systems, as good application of the standard would promote. The systematic use of data on collection has a practical limit, that of the determination of the reference period to be used. The use of this method, without sufficiently taking into account the great diversity of taxable events, leads to reporting approximations in accounting for accrued income with regard to recognition in income.

**II.124** Failure to observe the disclosure rules harms the understanding of the financial statements and hampers control of the accounts concerned. The Administration did not conform to the rules governing entries of provisions and write-back of provisions for disputes linked to taxes for businesses and individuals. In compensating for these entries for the fiscal year, the Administration undervalues the amounts of expenses and income shown in the income statement. The accounting method for valuation allowances related to claims of business taxpayers

results in overvaluing provisions and recovery by €5.9 billion. Likewise, the tax liabilities for registration duties and property tax are not accounted for as they are considered as a decrease in gross tax revenue for these taxes. Lastly, the gross tax claims and provisions for penalties are valued and accounted for as a group at the time of the closing (€5.1 billion). The Administration is unable to give a breakdown by category of tax, which burdens the control of this stock of claims.

**II.125** The accrual accounting data are not sufficiently reconciled with management data. Furthermore, the discrepancy observed between the credits accounted for and the nominal lists of the remainder to be collected in the area of taxes on individuals collected by means of tax rolls, from collection applications, does not make it possible for the Court to be fully assured that the credits accounted for at the fiscal year closing are correct.

**II.126** The insufficient formalization of certain accounting procedures and methods strengthens these uncertainties. The determination of expenses and revenue resulting from tax document checks is not subject to a rigorous accounting procedure and does not guarantee the completeness of these income and expenses.

**II.127** Evidencing the accounts is a fundamental stage of accounting quality control. It occurs prior to the implementation of analytical reviews, which have been lacking in the control of accounting of flows linked to taxes. It guarantees the control of accounting information in all its dimensions; valuation, matching and disclosure. For many entries, the necessary supporting evidence have not been conveyed spontaneously to the Court or made available by the Public Accounting General Department, and had to be researched with the persons responsible for expenditures and payment authorization, or even reconstructed by the Court. In particular, when generated by automated entries, the accounts for income and expenses for business and individual taxes are systematically excluded from the scope of the evidencing work. The notion of evidencing the accounts used by the Administration is essentially related to the validation of individual entries, without proceeding with exhaustive and supported analyses of the balances, which are incumbent on the certifying officers and the accountants.

**II.128** This bias in the evidencing of the accounts causes major limitations in the controls exercised by the Public Accounting General Directorate on the quality of the information given by the certifying officers as well as in the works of the Court. The Court has observed several accounting inadequacies (erroneous postings or calculation errors) which could have been avoided by following best practices and the chain

of accounting controls and recording entries in the organized review of accounts.

**II.129** Due exactly to this lack of evidence, the Court had to endeavour to lead more sophisticated analyses, to the detriment of having extensive control over an increased number of accounting aggregates. Notwithstanding this, the observations from these verifications led the Court to suggest adjustments or reclassifications amounting to €33 billion.

**II.130** The evidence collected by the Court led it to conclude that the substantial inadequacies in controlling the process for preparing accounts for taxes do not make it possible to reduce to an acceptable level the risks of inaccuracy, incompleteness and incorrect matching with regard to income and expenses related to taxes.

*(c) Conclusion*

**II.131** All the issues exposed above led the Court to express a substantial qualification concerning accounting for Government revenues as of December 31, 2007.

## **6 - Specific Fixed Assets**

**II.132** The Government has assets which are specific to it, for which identification and valuation are specified in the Central Government's accounting frame of reference. On the one hand, Government Accounting Standard 6 concerning tangible assets makes provisions for the recording of the assets granted as a concession by the Government and for the disclosure in the notes to the financial statements of a list of the concessions in effect. On the other hand, Government Accounting Standard 5 on intangible assets makes provision for the recording of assets related to the transactions in which the Government makes use of its power to authorize or restrict occupation of or operations in the public domain, as it did, for example, during the granting of UMTS (universal system of mobile telecommunications) licenses. Since no asset was so listed or valued in 2006, an absence which was mentioned in the notes to the financial statements, the Court had expressed a substantial qualification on this point, with regard to the materiality of the financial stakes involved.

**II.133** For 2007, the Ministry for the Budget, Public Accounts and the Civil Service had made the commitment to launch an inter-ministerial task for inventorying concession agreements and conducting work concerning the treatment of specific intangible assets and public-private

partnerships with the view to producing the first accounting for the 2008 fiscal year. A table with a count of the concessions by major category appears in the notes to the financial statements, which represents progress in financial information. The subject of concessions and public-private partnerships and specific intangible assets was included in the work program of the standards committee, with a preliminary provisional result concerning the treatment of contracts for public-private partnerships. At the same time, international debate concerning the accounting treatment of contracts linking public entities and businesses has accelerated in the new context created by progress in the financial reporting framework applicable to businesses, since the latter no longer account for tangible assets linked to a concession, but for intangible or financial assets, depending on the case.

**II.134** This reflection has not had the effect of making the current, national accounting standards inapplicable. It has even led to considering that the system set out by Government Accounting Standards 5 and 6 is likely to change in the area of accounting for very material assets in the Government accounts. In this context, it matters all the more that assets whose accounting treatment has already been specified in the standards in effect be effectively recorded on the balance sheet. In this respect, the two essential observations made concerning the financial statements for 2006 remain in 2007.

*(a) Specific Tangible Assets*

**II.135** With regard to the implementation of Government Accounting Standard 6, the Administration only accounted for the flows linked to the assets granted as concessions during the 2007 fiscal year without proceeding with a reconstruction of previous inventories. Since it was a question of highways and dams granted as concessions, the financial stakes involve several tens of billions of euros. While the Administration considered in 2006 that it had confronted a lack of reliable information for the services concerned, it now considers that he does not have to do a retrospective accounting for the assets constructed by the Government and granted as a concession. On this point, the Court has a different interpretation of the standard from the Administration. The Court deems that the standard is immediately and not prospectively applicable. The result is a lack of agreement on the scope of the assets granted as concessions by the Government, which must be part of the audit trail and for which there is no accounting in the financial statements, despite such requests conveyed by the Court to the Administration.

*(b) Specific Intangible Assets*

**II.136** Concerning implementation of Government Accounting Standard 5, just as in 2006, no specific intangible asset was recorded in the 2007 accounts. Therefore, the Government collects revenues linked to the occupation of its public domain, without the asset which is at the origin of such revenue being recorded in the balance sheet under the terms specified in Government Accounting Standard 5. The Administration considered that it was not in a position to apply the standard due to difficulties which surround the valuation of the assets concerned. Without misjudging these difficulties, it is obvious that the standards define and specify the valuation of the specific intangible assets, which were not, however, registered in the Government balance sheet at the closing.

*(c) Conclusion*

**II.137** Despite the progress made during the 2007 fiscal year, the Court observed that the two points mentioned above constitute a disagreement with the Administration and resulted in substantial uncertainty concerning the completeness and valuation of the Government assets. Lastly, the Court observed that the table giving the number of concessions for each major category, which now appears in the notes to the financial statements, was submitted to the Court very late, which greatly limited its review.

**7 - Public Procedures Account Managed by *Coface* and Section for Centralized Savings Funds at the *Caisse des Dépôts et Consignations***

**II.138** The Court qualified its opinion on the 2006 fiscal year accounts with regard to the scope of the Government balance sheet, from which were excluded the account for public procedures managed by the French Company for Foreign Trade ("*Coface* Government account") and to the section of the Savings Funds whose management is granted to the *Caisse des Dépôts et Consignations* (CDC). This situation does not comply with the Central Government's accounting frame of reference or the principles contained in the international financial reporting framework (IFRS and IPSAS)

*(a) The Account for Public Procedures Managed by Coface*

**II.139** The account for public procedures managed by *Coface* records the operations which this private insurance company has carried out since 1997 with the Government's guarantee and which are intended to foster French exports in connection with the provisions of Article L.432-1 to L.432-4 of the Insurance Code. These operations consist in insuring risks which cannot be insured by the market, for the benefit of businesses which explore the export markets and market products and services with a mainly French origin. An agreement governs the relations between the Government and *Coface* and particularly the conditions for management and compensation of the account for public procedures. This account represented a balance sheet total of €14.8 billion as of December 31, 2006, the last year available.

**II.140** In conformity with the Government accounting standards, the control criteria determine the scope of accounting for assets. According to the Court, the conditions of application of these criteria have been fulfilled and justify integration of the assets and liabilities of this account with those of the Government. The Government has a decision making power over the largest requests for promises of a guarantee. In addition, each year it deducts funds from this account for the benefit of the general budget.

**II.141** The Ministry of Economy, Industry and Employment and the Ministry for the Budget, Public Accounts and the Civil Service parts with this analysis. They consider that *Coface* acts in its own name and for the account of the Government, as its agent. They conclude that it is necessary to specify the operating account guaranteed by the Government in the *Coface* accounts, in a distinct manner which makes it possible to reflect its specific nature. The disagreement between the Court and the Administration was therefore observable as of last year.

**II.142** The two ministries made every effort to respect the commitments that they had made and which had been mentioned in the certification document. Therefore, the deductions made by the Government of funds in the account from then on operated in a framework defined by the Budget Act. In this regard, €2.5 billion were withdrawn during the course of 2007, in conformity with the year's Budget Act and an additional €400 million in application of the Supplementary Budget Act. In addition, the conditions for maintaining the liquidity of the account will from now on be set by the new financial agreement between the Government and *Coface*, which is in the process of being finalized. However, the balance sheet for the account for public procedures no longer appears in the notes to the financial statements of *Coface*, which represents a decline in the quality of financial information. Lastly, the delayed production of the

financial statements for the account for public procedures managed by *Coface* did not make it possible to analyze them in due time before the Court had to issue its opinion on the 2007 Central Government Financial Statements.

**II.143** No legal change has occurred to alter the nature of this account, which still has not been equipped with a legal status. A reference to the account for public procedures in the notes to its financial statements for 2007 was accepted by *Coface*, but only partially meets the requirement for clarification to the extent that it does nothing but reproduce the provisions of Article L. 432-4 of the Insurance Code.

**II.144** Consequently, the Court observed that its analysis of the account situation with regard to the control criteria remained unchanged and that the corresponding assets and liabilities should be integrated directly or indirectly into the financial statements of the Central Government.

*(b) The Section for Centralized Savings Funds at the  
Caisse des Dépôts et Consignations*

**II.145** The *Caisse des Dépôts et Consignations* (CDC) has a specific mission of centralizing and managing funds from various savings products. It is classified in the Central Government Financial Statements for 2007, in its general section, among the uncontrolled Government participations. This situation meets the general criteria of recognition of control specified in Government Accounting Standard 7 related to financial assets. But it is through the Savings Funds section that the *Caisse* plays an essential role in the funding of social housing and urban renewal, a general mission which is part of public policy.

**II.146** As in 2006, the Court considered that the exclusion of the Savings Funds section from the scope of Central Government participations was not justified, since it had the effect of decreasing the value of the controlled and uncontrolled entities appearing in the assets of the Government balance sheet. The Ministry of Economy, Industry and Employment considered that none of the criteria enumerated in Central Government Accounting Standard 7 justifying this integration were met.

**II.147** Furthermore, the accounts for the Savings Funds section, which represents a balance sheet total of €217 billion were not consolidated with those of the CDC. They were the subject of a specific presentation, which was separate from that of the general section of the *Caisse*.

**II.148** This situation does not comply either to Government Accounting Standard 7 or to the international financial reporting framework (IAS 31, §19, SIC 12, §1 and IPSAS 8, §24), which specify the consolidation of accounts of entities without legal status with those of the entity which controls them.

**II.149** According to the Court, the control criteria of Government Accounting Standard 7 place the Savings Funds under the management of the CDC. The accounts of this section were in fact closed by the chief executive officer of the *Caisse* following notice from the supervisory committee, as were those of the general section. They were published in the same annual report. The amounts withdrawn by the general budget are set by decree made following notice from the Supervisory Committee. The current decisions concerning management are made by the CDC. Loans for financing social housing are granted as stipulated by the Government and the *Caisse*, which ensures the instruction and decides on grants. The asset-liability management policy decided and implemented by the CDC.

**II.150** On the other hand, the Government sets the uses of the savings funds and certain rules for investing financial assets. It has mandated the setup of reserve funds and guarantee funds, subject to specific prudential regulations to protect the general budget against bringing the guarantee into play. It may put an end to the mechanism of centralization of Savings Funds. From this activity it gains a significant economic advantage (deduction from the reserve funds and guarantee fund of the *Caisse nationale d'épargne* and other savings banks, deduction from other savings funds having available resources). Finally, it is the risk-bearer of last resort for the transformation of demand deposits into very long-term loans whose interest rates cannot be adjusted based on borrower risk.

**II.151** After the qualification expressed on the Government's 2006 accounts regarding this matter, the Ministry of Economy, Industry and Employment committed itself to clarifying the relations between the Government and the CDC, the authorized manager for piloting management of the Savings Funds. The Government announced the reform of *Livret A* (tax-exempt savings account) and the financing of social housing in 2008. It examined the potential consequences of these reforms with respect to the modes of centralization of deposits in the Savings Funds. While awaiting the vote for the law modernizing the economy, for which the bill was adopted by the Cabinet and is in the process of examination by the Parliament, no decision, however, has been made as to clarifying the institutional framework dedicated to the management of the Savings Funds. The Ministry indicated that it was

awaiting this clarification to draw accounting conclusions. In any event, as of December 31, 2007, the financial statements for the Savings Funds section of the CDC were still not presented with those of the Central Government or consolidated with those of the CDC.

**II.152** The Court considers that the section for the Savings Funds should be accounted for in the Government's long-term investments, although there is no reason to decide on whether they are reported with controlled or uncontrolled entities. As is already the case for the general section, its acquisition value would be equal to 100 per cent of equity plus the funds for general bank risk, which stands at €7,664 million in the balance sheet where it is entered. This position has the agreement of the CDC.

*(c) Conclusion*

**II.153** A substantial disagreement with the Administration results from exclusion of the scope of the Government balance sheet of the two entities which should be part of it for material amounts.

## **8 - Liabilities Related to Transfer Transactions**

**II.154** For the 2006 fiscal year, the Court expressed a substantial qualification based on the absence of completeness and reliability of the liabilities related to transfer transactions accounted for by the Government in its mission as an economic and social regulator. In conformity with its commitments, the Ministry for the Budget, Public Accounts and the Civil Service strongly mobilized the ministries for managing transfer transactions, in such a way as to better assess the commitments of the Government in the matter. Major progress has thus been made. Government Accounting Standard 2 has been modified. The scope of liabilities to be recognized as of December 31, 2007 very significantly increased.

**II.155** As of December 31, 2007, the total transfer transactions, after taking into account the modifications requested by the Court, amounted to €150.9 billion, and the amount of liabilities transfer transactions amounted to €43.2 billion in loss provisions and €11.2 billion in expenses payable and unliquidated obligations.

*(a) Risks Inherent in Off-balance Sheet Determination of Expenditure  
for the Fiscal Year*

**II.156** The lack of adaptation of the information systems recording transfer transactions required an extra-book keeping determination of the expenses for the fiscal year. This determination was mainly implemented by means of the *Orchidée* application. Despite major improvements from which the application benefited in 2007, it still shows major weaknesses, particularly:

- The absence of automatic reporting of the provisions of the preceding fiscal year for 2007;
- The absence of auxiliary accounting of third parties and beneficiaries by major category; and
- The absence of follow-up of the discharge of expenses payable or their reclassification as debts.

**II.157** The importance of the anomalies detected by the Court (lack of determination, double accounting, etc.) confirms the importance of the risks linked to the functioning of the financial and accounting information systems. However, the Court took note of the improvements that the Administration committed itself to implementing in 2008 in the new version of the *Orchidée* application.

*(b) Determination and Valuation of Liabilities Related to Transfer  
Transactions*

**II.158** In conformity with its commitments, the Administration made a major effort to determine the liabilities related to transfer transactions for every programme and determine, for each of the measures of these programmes, the cause and the accounting method of the Government commitment. This step constitutes undeniable progress. It made it possible to draw up, for the 42 programmes identified as presenting material risks by those responsible for expenditures and payment authorization, detailed analysis forms, shared by the preparer of the financial statements and the managing ministries, identifying the basis of the Government commitments and the conditions for accounting for the corresponding liabilities. It means significant progress on the path to better accounting for liabilities related to transfer transactions. The strong development of provisions for losses related to transfer transactions, accounted for as €29.5 billion as of December 31, 2006 and reaching €43.2 billion as of December 31, 2007 demonstrates how this work of analysis and identification was necessary.

**II.159** The scope of measures analyzed is not yet sufficiently representative of all the liabilities pertaining to transfer transactions. This scope should increase in 2008. The Administration has accepted the most significant requests for adjustment issued by the Court, but it is not always in a position to give an opinion with reasonable assurance concerning the completeness of the liabilities pertaining to transfer transactions accounted for at the end of the fiscal year. As an example, uncertainties exist concerning the counting and valuation of the fixed amounts for day schools outright price and scholarships based on social criteria financed by the Government and the commitments of social lessors receiving real estate subsidy

**II.160** The main programmes are managed by intermediaries or Government implementing partners. They involve the majority of losses and risks. They have not always been satisfactorily analyzed by the Administration. The adjustments requested by the Court, concerning, for example, the Government's commitments managed by The Agency for Financing of French Infrastructures of Transport, the National Agency for the Habitat or UNEDIC have been taken into account. Uncertainties persist, on the other hand, concerning the Government's commitments to the French Railway Network, related to the multi-year plan for renovation of the national rail network or even commitments managed by CNASEA in the area of aid to employment, for which the assessments of the Government and the managing implementing partner differ. The Administration has committed itself to remedying this situation in 2008.

**II.161** In this respect, the Court recalls that the commitments made by the implementing partners on behalf of the Government must appear in the accounts of the latter and that the Government liabilities must give details of all resources, budgetary and extra-budgetary which it transfers to third parties.

**II.162** Certain claims held by France against very indebted poor countries are the subject of clearing of debt and development agreements which have the purpose of repayment of the debts with compensation in terms of financing of projects to battle poverty. These operations are similar to the cancellation of debts. Their accounting treatment does not correspond satisfactorily to the nature of the operations intended and the content of the agreements entered into. The depreciations of claims presently accounted for should be replaced with provisions for transfer transactions. This reclassification, which involves potentially material stakes, would more faithfully reflect the reality of the grant made by France.

*(c) Financial Information Concerning Liabilities Related to Transfer Transactions*

**II.163** Examination by the Court of the Government's liabilities to the general Social Security System made it possible to identify an amount of €2.7 billion reported as expenses payable, which has the accounting characteristics of a debt due for payment. The Government's balance sheet adds on the same line (liabilities for interventions) the debts due for payment and expenses payable. These details should have been given in the notes to the financial statements of the Central Government. This debt essentially relates to the insufficiency of the yearly appropriations, known with certainty and precision at the fiscal year closing despite the absence of invoices as of December 31. For the 2008 fiscal year, the accounting procedures pertaining to the relations with Social Security should be reviewed in order to establish the Government's commitments in accordance with their precise nature.

*(d) Taxes and Levies Allocated To Third Parties*

**II.164** The portion of taxes and surcharges allocated to third parties (mainly social security entities) and due from taxpayers for the fiscal year, is not recorded in the Government's accounts until the taxes in question are actually collected. However, the third parties have received notice of this portion. Upon the request of the Court, the Administration accepted accounting for the amount of the claim, and the expense payable corresponding to this non-budgetary allocation of resources for the 2007 fiscal year. These entries, however, are incomplete. For the taxes collected for the account of Social Security, the Court valued the discrepancy at more than €2 billion.

**II.165** Furthermore, the amended law of August 13, 2004 specified complete financial compensation of the expenses assumed by CNRACL for the Central Government's account for retirement of Central Government representatives who are part of the local civil service. If the exact forms of compensation are to be defined pursuant to a future Budget Act, they would have to take the form of a portion of the value added tax allocated. So, the future expense incumbent on the Government is not mentioned in its off-balance sheet commitments.

*(e) Identification of the Operating Event of the Central Government's Obligation*

**II.166** Government Accounting Standard 2 related to expenses is not precise regarding the definition of the event resulting in reporting of due expenses. The notion of a “awarding appropriation bill” is often difficult to determine and poorly adapted to a great number of measures for social assistance granted for the Government's account, by the social security and unemployment insurance entities. This includes allowances to disabled adults, social solidarity or social housing, as well as commitments made by the Government in application of legislative or regulatory conditions of general range.

**II.167** These social programmes which are not contractual are evidenced by individual decisions likely to be valid for several fiscal years, but are subject to periodic revision, related in particular to criteria for resources. One of the possible interpretations of Government Accounting Standard 2 is to record for this type of programme adopted by the Government either loss provisions or off-balance sheet commitments. Now, these systems do not presently appear in any of these headings in the financial statements. Their specificity justifies that consideration be given to altering Government Accounting Standard 2.

*(f) Conclusion*

**II.168** With regard to all of the observations above and without underrating the major efforts granted by the Administration to systematically identifying the liabilities with regard to transfer transactions, the Court considers that the lack of completeness and a still insufficiently controlled valuation of the obligations contracted by the Government under programme measures leave a substantial uncertainty concerning the amount of liabilities related to transfer transactions in the accounts as of December 31, 2007.

## **9 - Real Estate Holdings**

**II.169** In the qualified opinion on the Central Government Financial Statements for 2006, the Court expressed a substantial qualification regarding the completeness of the determination of the total real estate held and its proper valuation.

**II.170** The Government's real estate assets and the buildings in use appear in the accounts as of December 31, 2007 as having a net value of €57.2 billion compared to €49.1 billion at the end of 2006. Essentially,

this valuation is based on market values, except for certain atypical assets (court houses, specific military installations or those with a large area, etc.) due to the absence of valuation references with respect to the market. The classified buildings and certain specific property are valued at a symbolic amount of €1. Other property, such as penitentiary institutions are valued at the depreciated replacement value.

**II.171** Following the Court's qualification, the Administration took four principal commitments: (1) make on-site valuations of real estate holdings for which works were checked and signed for in 2006 or whose usable area was significantly changed; (2) increase the reliability of the inventory count and valuation of the real estate holdings not under Government control; (3) increase the reliability of key data for the property pursuant to extension of the mechanism of budgetary rents; and (4) implement a system to reconcile the data of the inventory of Government real estate assets with the land register base.

**II.172** Despite the magnitude of the efforts undertaken by the Administration, these commitments have been only partially kept, and uncertainties remain concerning the scope and valuation of the real estate assets at the 2007 fiscal year closing.

*(a) The Quality of the Accounting Tools for the Group*

**II.173** The inventory and valuation of the total real property held depends on the keeping of the General Table of Central Government's Properties (*TGPE*). The Court underlined actions implemented by *France Domaine* in 2007 which made it possible to improve the information recorded in the *STGPE* application concerning the description of the property (areas, maintenance coefficients). However, certain observations concerning the limits inherent in this tool must be reiterated in 2007: the limited number of automated controls and the absence of an interface with the tools for expenses and accrual accounting necessitate implementation of multiple new treatments and manual controls which generate major weaknesses in the audit trail. For example, this is the case for new treatments for calculating the revaluation margin for which the Court cannot ensure either the completeness or the accuracy. The impossible reconstruction of all data justifying the amounts reported in the books causes uncertainty about the value of the assets recorded in the Government's balance sheet.

**II.174** The Court notes that the setting up in 2009 of the real estate module of the *Chorus* system might imply a better integration of data and an extension of the functionalities of the present operating procedures (valuation procedures, follow-up of putting into service,

management by building). However it remains necessary to stick to commitments taken with the view to ensuring reliability of data related to real estate holdings, with the support of existing tools, without which completeness and proper valuation of the whole real estate holdings in the Central Government Financial Statements will not be reached.

*(b) The Procedures for Inventory and Valuation*

**II.175** While, in conformity with the commitments made and the accounting instructions, a certain number of assets which were not valued in 2005 and 2006 were valued in 2007, about 1.5 per cent of the total assets have still not been the subject of any valuation. Moreover, all assets which had been the subject of checked and signed works in 2006 and 2007 or whose area changed significantly were not valued on site. As a result of these observations, uncertainty persists concerning the value of the total real estate which was accounted for in the Central Government Financial Statements.

**II.176** Comparison of the land register bases and data appearing in the STGPE shows unexplained discrepancies. The Administration work, which, in accordance with the commitments made, targeted improvement in cross-checking, was abandoned without any alternative procedure having been put in place. This results in uncertainty concerning the completeness of the scope of the property inventoried.

*(c) Compliance with Accounting Standards*

**II.177** According to Government Accounting Standard 6, “further expenses” such as repairs or maintenance expenses for the purpose of restoring or maintaining the real-estate holding potential for service must be accounted for as expenses, except if there is a loss of value associated with a reduction in the potential for service which was previously reported. Since the Administration does not apply the principle of accounting for an expense for loss of value linked to decreased service value, a major part of the work was incorrectly treated, in significant amounts, as of December 31, 2007. The differentiated opinion made by the Administration of the provisions of Government Accounting Standard 6 concerning further expenses which may become tangible assets creates a disagreement with the Court. Nevertheless, the latter took note of the fact that during the 2008 fiscal year, the public accounting standards committee should have received a request for clarification of the provisions concerned.

*(d) Conclusion*

**II.178** Despite the progress in the direction of reliability in 2007, the inappropriate interpretation of the Central Government's accounting framework and insufficient quality of the inventory tools and procedures continues to cause substantial uncertainty concerning the valuation and completeness of the total real estate held as recorded in the Government's balance sheet as of December 31, 2007.

### **10 - Cash Accounts**

**II.179** Defined by Government Accounting Standard 10, the components of the Government liquid assets include elements of assets, such as bank funds and savings bank funds and items of liabilities, which are composed principally of bank deposits from "Public Treasury Correspondents" (local governments, local public institutions, etc.). As of December 31, 2007, cash assets amounted to €22.06 billion and cash liabilities amounted to €68.97 billion.

**II.180** The longstanding network of the Public Treasury assumed with rigor and effectiveness the keeping of the cash accounts, and the controls put in place were adapted in view of the external auditing of the Central Government Financial Statements. However, the audit of the material components of the Government's cash and cash equivalents, which came during a transitional period for the internal control system of non-centralizing Public Treasury local points, signalled a lack of formal evidence of certain balances closed as of December 31, 2007. Furthermore, the accounting entries within the year recorded as a debit or credit of certain bank accounts on the books of the Public Treasury did not entirely comply with either the Government accounting instructions or the accounting quality criteria defined by the French Chart of Accounts.

*(a) The Liquid Assets of Local Governments and Local Public  
Institutions Which Do Not Have Bank Accounts with the Public  
Treasury*

**II.181** The liquid assets of local governments and public institutions (CEPL) which do not have individualized bank accounts with the Public Treasury and whose cash flows are recorded in the Central Government books, stand at €34.3 billion as of December 31, 2007.

**II.182** In accordance with the applicable internal control systems, the centralizing accounting areas must on a monthly basis adjust the cash assets of the CEPL with the Government accounts and ensure the audit trail for adjustments controls to be implemented. On several occasions the Court called the attention of the Administration to the necessity of making control procedures for such accounts for local governments (and local public institutions) more reliable and ensuring systematic formalization of these controls.

**II.183** The audit of a representative sample of centralizing Public Treasury local offices revealed that a material portion of them were not in a position to deliver figured and documented statements of reconciliation, in order to guarantee and trace these adjustments concerning significant financial stakes.

**II.184** Now, this traceability is fundamental to a logical accounting disclosure and external audit process. Accordingly, with regard to the financial amounts considered, the formalization of adjustment by the Centralizing Public Treasury local offices is necessary, as the Court had recommended in its report on the 2005 accounts<sup>3</sup>.

**II.185** Failure to produce a formal reconciliation statement is a limitation on the scope of the Court's audit related to balances of the accounts under consideration.

*(b) The Balances of Clearing or Suspense Accounts Related to Operations of Public Treasury Correspondents*

**II.186** Clearing or suspense accounts make it possible to follow up banking operations by Public Treasury correspondents which are pending at the fiscal year closing (mainly for technical reasons or because of insufficient funds). As of December 31, 2007, the balances of these accounts stood at €620 million in assets and €380 million in liabilities on the Government's balance sheet.

**II.187** In order to evidence the balance of accounts, it is necessary to manually consolidate, based on a temporary statement of the balance closed on the calendar date of December 31, 2007, all the entries made during the supplementary period (which ran from January 2 through January 11, 2008) with an accounting date of December 31, 2007. The Administration admits that this consolidation process is complex.

---

<sup>3</sup> See recommendation 46, page 32.

**II.188** The verifications performed by means of a sample of 24 general cash accounts representative of the Centralizing Public Treasury local offices gave evidence of the frequent lack of a formal statement consolidating all of the information necessary to evidence the balances for these accounts closed as at December 31, 2007 (including the additional period). Despite the alternative methods implemented by the external auditors and due to the complexity of the consolidation to be made, all of the audit works requested could not be carried out.

**II.189** This resulted in a limitation on the scope of the Court's audit with regard to balances of the accounts concerned.

*(c) The Liquid Assets of Armed Forces Units*

**II.190** The liquid assets of the Armed Forces Units are recorded in the accounts for advances which appear in the assets of the Central Government's balance sheet. As of December 31, 2007, the amounts entered into the accounts amounted to €980 million.

**II.191** According to the accounting instructions in effect, at the fiscal year closing, cash transactions must be the subject of a precise follow-up and adjustment between the accounts for advances recorded in the Central Government's accruals and the cash statements by the Armed Forces Units. The absence of communication of these situations has not made it possible for the Court to ensure their compliance with the Central Government trial balance. In this respect, the Defence Ministry values the discrepancy between the cash statements of the Armed Forces Units and the Central Government's accounts for advances at €125 million without, however, being in a position to communicate evidence which would make it possible to substantiate this amount and precisely correct the Central Government's accounts.

**II.192** This resulted in uncertainty regarding the balance of the liquid assets of the Armed Forces Units accounted for in the Central Government's balance sheet.

**II.193** The Administration has undertaken to treat and settle this problem in 2008 in connection with overall reform of special procedures of the Defence Ministry which will reduce the scope and limit the derogatory character.

*(d) Daily Accounting Entries*

**II.194** The accounting entries recorded all over the year debiting or crediting certain bank accounts on the books of the Public Treasury do not comply with certain principles defined in Central Government accounting instructions and the French Chart of Accounts. Contrary to the recommendations of the applicable financial reporting framework, the bank statements are not systematically entered in their entirety upon their receipt. Accordingly, the entries which have been posted on accounting date D to the bank account give either the bank statement operations of day D or the statement operations of day D-1. They sometimes involve older operations. The accounting treatment of the statements transmitted by the Bank of France is not synchronized for all Centralizing Public Treasury local offices. The sequence of operations has not been respected.

**II.195** At Public Treasury local offices, the Bank of France account is broken down into several codes identifying the nature of flows which impact it. Each day, the Public Treasury local offices are therefore the recipient of several Bank of France statements corresponding to each code. The methods of processing these statements vary from one Public Treasury local office to another. Therefore, operations can be accumulated and recorded under a single entry without distinguishing the code which they refer to. In addition, the description attached to the accounting entries are too often imprecise. They therefore do not make it possible to ascertain the nature of the operations recorded as debits or credits to the account or identify the references of the supporting document, in contradiction with the quality requirements for the French Chart of Accounts<sup>4</sup> The quality of the audit trail is not ensured.

*(e) Conclusion*

**II.196** These elements limit the scope of the Court's audit with regard to the balances of certain cash accounts disclosed in the Government's balance sheet. This limitation is doubled by inadequacies in the quality and regularity of certain accounting entries during the year. The preparer of the Financial Statements declared itself ready to pay greater attention by means of implementation of diagnoses and audits of the accounting process in question.

---

<sup>4</sup> Article 420.2 states: "all accounting entries are to give the origin, contents and entry of all data, as well as the references of the supporting documents."

## 11 - Contingency Provisions

**II.197** As for any entity drawing up accounts, risk management takes on a particular importance for the Government. The risks the Central Government confronts are of many kinds due to its broad scope of interventions. In conformity with the applicable financial reporting framework, the risks identified which are inherent in Government activity must give way to accounting for contingency provisions or off-balance sheet commitments, depending on the degree of certainty of the amount or due date for the outflow of resources necessary to discharge the obligation. The cause of the recording of a contingency provision is generally located upstream of the outflow of resources. A portion of these contingencies materializes in connection with lawsuits involving the Central Government, where financial outcome depends on judgments handed down by local, national, or international courts. However, the recording of a contingency provision is not conditioned by the prior start of a legal proceeding. In fact, the notion of contingency inherent in the Central Government's activity and identified as such is not limited to this single condition.

**II.198** The contingency provisions accounted for on the Central Government's balance sheet amounted to €6.5 billion as of December 31, 2007, compared to €6.9 billion at the end of 2006. The provisions for lawsuits, which represent an overwhelming part, are estimated at €5.1 billion.

**II.199** Following observations made by the Court concerning the Central Government's 2006 accounts, the actions initiated by the Administration in 2007 and taken over by different ministries have made it possible to increase significantly the scope of the registered risks determined. Nevertheless, at the 2007 fiscal year closing, neither completeness of the determination of risks and contingencies nor correct valuation were yet fully ensured.

### *(a) Completeness of the Determination of Contingencies Requiring Provisions*

**II.200** Most of the contingency provisions accounted for in the liabilities of the Central Government balance sheet involve declared legal disputes. Now, only legal disputes determined at the level of the central administrations had provisions in the financial statements of the Central Government for 2006, as the Court had shown. In accordance with the commitments made by the Ministry for the Budget, Public Accounts and the Civil Service, the determination was enlarged to a preliminary group

of local offices of the Central Government. The effect of this extensive scope on the 2007 financial statements is significant. The procedure for determination, however is encountering important limitations.

**II.201** The information systems used by the legal offices of the central administrations and their local offices have been broken up and are not planned to supply the Central Government's accrual accounting. Uncertainty results concerning the completeness of the determination of the legal disputes. By way of illustration, the ERICA database of Tax services of the Public Finances General Directorate does not cover all of the tax disputes which may potentially result in establishment of provisions.

**II.202** The scope of this determination differs from one Ministry to the other. The procedure for listing legal disputes at the local level drawn up by the Ministry of Youth, Sports and Associated Life and the Ministry of Health and Social Solidarity has not been completed due to restrictive time periods or insufficiently reliable data. This is equally the case with a great number of prefectures which have not implemented this procedure for the 2007 fiscal year, for which certain are concerned by potentially significant stakes. Among those which have proceeded with a determination of the lawsuits, the rules pertaining to provisions do not always comply with the procedure defined by the Public Accounting General Directorate and specified by the Home Ministry. Litigation related to Public Treasury collection is not included within the scope of registration. No Directorate with inter-ministerial authority benefiting from a complete view of the affairs underway at the account closing determines all of the litigations brought before the European Court of Human Rights (ECHR).

**II.203** As for determination of off-balance sheet contingencies not involving known litigation, which concern a broad area still poorly defined, a deeper analysis appears necessary in order to identify the risks inherent in the Central Government's activities and determine the appropriate accounting treatment. This step is progressive, since certain ministries were committed to take actions for the 2008 fiscal year. The state of advancement of the work of the contingency committee steered by the Public Finances General Directorate, which is responsible for centralizing this counting and deciding on the accounting treatment, does not yet make it possible to guarantee the completeness of the counting of contingency provisions.

*(b) The Valuation of the Contingencies Determined*

**II.204** The procedures for valuation and control of contingency provisions which are included in a multi-year plan drawn up by the Administration have not yet been made reliable. The valuation does not involve all of the contingencies determined. As an illustration, provisions have not been recognized as for bank and insurance litigations, contingencies related to disputes brought before the ECHR upstream of serving notice of the proceeding, which should involve the Ministry for Foreign and European affairs, as well as some litigations related to competition law. Certain mass tax disputes have been the subject of a partial valuation. Provisions for tax litigation do not take into account interest on Central Government overdue payments. The method of valuation of contingencies determined by the prefectures and the local offices of ministries has been implemented in a heterogeneous manner.

*(c) Conclusion*

**II.205** The observations above result in uncertainty as to the completeness of the determinations and valuation of contingencies that result in recognizing provisions within the financial statements of the Central Government for 2007.

## **12 - Other Determinations of Assets and Liabilities**

**II.206** Several categories of tangible assets are not registered within the books according to homogeneous methods and procedures likely to ensure completeness and correct valuation. The principal observations made by the Court concern “unallocated” tangible assets, the accounting treatment of co-financing of Government tangible assets and internally produced software. This problem, for which the stakes are material, takes on a strong inter-ministerial dimension.

*(a) Unallocated Tangible Assets*

**II.207** The accounts of fixed asset deemed “unallocated” record a large number of assets whose unit value is low (furniture and office equipment, computer and telecommunications equipment, certain machinery and technical equipment, etc.) The balance of these accounts is €12.1 billion given as a gross value on the balance sheet for the 2007 closing. In these accounts, tangible assets which are not the subject of any determination represent €11.3 billion, which is more than two thirds of the total amount of the accounts for technical, industrial and machine

equipment and other tangible assets, the Defence Ministry being excepted.

**II.208** The valuation of these tangible assets relies on data from the financial statements as of December 31, 2005 and on the budgetary flows corresponding to acquisitions for the 2006 and 2007 fiscal years. The balance of the corresponding accounts is depreciated on an aggregate basis at the end of the fiscal year for a set time of depreciation.

**II.209** This accounting method, which is not made explicit in the notes to the financial statements of the Central Government, does not respect the principles set forth in Government Accounting Standard 6 on tangible assets and has a very low degree of reliability.

**II.210** Budgetary flows are added year after year, which does not represent an adequate reference base. No physical inventory count was carried out in 2006 or 2007 for the “unallocated” fixed assets. Considering the high risk of discrepancy between the accounts and the assets physically present at the ministries, the adoption of a method based on inventory procedures appears essential.

**II.211** The gross value of these fixed assets increased from €15.7 billion in the 2006 opening balance sheet to €12.7 billion in the 2007 closing balance sheet. The proportion of “unallocated” assets in the total other tangible fixed assets greatly decreased, except for military equipment, going from 69 per cent in the 2006 opening balance to 54 per cent at the 2007 closing balance. The Court did not obtain any explanation for such a change.

**II.212** The Court notes the intention expressed by the Administration to propose improvement options for the accounting follow-up of these “unallocated” tangible assets, including a more detailed segmentation of the scope of fixed assets, with a view to eventually clearing these accounts and eliminating from the Central Government’s balance sheet. In anticipation of the definition of a schedule and precise methodology adapted to accounting for numerous low value unit assets, the Court recalls the necessity of adding them to the physical inventory counts and annual valuation of entries and eliminations.

*(b) Co-Financing of Tangible Assets*

**II.213** Government Accounting Standard 6 specifies that co-financed assets which may be accounted for as fixed assets which the Central Government benefits from (such as the fund for participation in construction, equipment and operation of the national highway network) must be accounted for as prepaid income. Their amount is included in the income statement at the same rate and duration as for depreciation of tangible assets to which they pertain, if applicable, otherwise over a ten-year period. Prepaid income accounted for in this manner appeared in the liabilities of the Government's 2007 balance sheet at €2.6 billion.

**II.214** The Administration had undertaken to conduct work in 2007 to make these amounts more reliable. This commitment was not implemented satisfactorily, and the treatment used to determine the amount of prepaid income (on the basis of the outstanding receivables) does not meet the requirements of Government Accounting Standard 6. It would have been necessary to record as prepaid income the amounts of funds for participation which correspond to fixed assets not entirely put into service, and for those put into service but not completely depreciated the portion of the fund for participation which was not recognized in income.

**II.215** Waiting for the results of work concerning inventories and analysis undertaken by the Administration, the Court found uncertainty concerning the amount of prepaid income reported under co-financing of fixed assets as of December 31, 2007. The data available do not make it possible to calculate exactly the underestimated liabilities.

*(c) Internally Produced Software*

**II.216** Software produced internally appeared in the balance sheet assets as a net value of only €0.6 billion.

**II.217** The uncertainty pointed out at the 2007 closing concern the correctness of the data reported in the accounts, due to difficulties encountered in the follow-up of dates when items were put into service, the lack of control of the distinction between tangible assets in process of realization and those already in service, the initial valuations, the forms of review of depreciation terms, the correct accounting for scrapping, and lastly the division between expenses and fixed assets. Furthermore, if an effort was made in 2007 by the Administration to follow-up and value the internal costs related to internally produced software, the valuation of staff costs which may be capitalized remains poorly perceived.

**II.218** In addition, only software put into service as of January 1<sup>st</sup>, 2001 has been included in the balance sheet, and the determination of this category of assets must still be made reliable and extensive, especially concerning the Defence Ministry.

**II.219** This results in uncertainty concerning valuation of this category of intangible assets, for which the amounts accounted for in the Central Government's balance sheet, should continue to increase significantly during the coming fiscal years.

*(d) Conclusion*

**II.220** The incorrect application of the reference accounting framework, the insufficient appropriation by the managers of notions necessary for implementing accounting procedures and the weakness of inventory procedures create uncertainty about the completeness and valuation of several assets and liabilities appearing in the Central Government's balance sheet as of December 31, 2007.

### **III - Report on the Audits Conducted**

**III.1** In accordance with the provisions of Article 58-5<sup>o</sup> of the LOLF, this chapter reports the auditing procedures performed by the Court in its external audit mission as for the Central Government Financial Statements for 2007.

**III.2** The Court has divided its external audit mission into two phases. First of all, it performs “interim” audits during the course of the fiscal year, then “final” audits after the accounts are closed but before the definitive closing. The external audit mission is an annual responsibility which is the subject of in-depth exchanges of information with the Administration.

**III.3** The choice of focus areas and sites to be audited is made during a planning phase which precedes each of the two phases. This allows the updating or, if applicable, identification of the risks of material misstatements in the financial statements. The audit work is divided into homogeneous subsets of the financial statements or “audit sub-cycle” and involves description of the risks identified at that stage and verifications pertaining to it, as well as the list of sites to be audited during the interim phase.

**III.4** The schedule for the preparation of the financial statements is determined by the LOLF, which sets June 1<sup>st</sup> as the date for filing the budget review bill to which the Central Government Financial Statements and the certification document are attached. In Article 28, the LOLF maintains a period in excess of the calendar year limited to a maximum of twenty days.

**III.5** The schedule for drawing up the Budget Review Bill is a major constraint imposed on the Administration as well as the Court. The time periods for drawing the Central Government Financial Statements do not make it possible either for the certifying officers or the accountants to proceed with controls giving the Administration the means to make the financial statements reliable, under satisfactory security conditions, particularly adjusting entries. For its part, the Court should be able to have a longer time period so as to extend the scope of its audit on an entity as significant and complex as the Central Government. The availability to the Court on March 13, 2008 of a preliminary trial balance that was stabilized and usable and the extension to April 8, 2008 of the date set by the Administration for receipt of the last requests for corrections constituted some progress. However this progress is insufficient. In fact, the Court benefited by only 17 business days (26 clear days), to perform its final audits, which require the implementation

of difficult procedures for receipt and treatment of accounting data and sending of supporting documents produced by all of the Government departments.

**III.6** It is therefore indispensable to continue to make progress along two paths of loosening constraints of the schedule already discussed by the Court. The period in excess of the calendar year must continue to be reduced, as the Government committed itself. It could even finally be eliminated since the year's Budget Bill for the following year and the Supplementary Budget Bill for the current year would be submitted at the same time. Recourse for the first time to an interim closing of the accounts helped make the accounting entries more reliable, particularly the closing entries. The scope of the interim closing will have to be extended to adjusting entries and its methodology will have to involve the certifying officers more closely so that the Court can profitably use the interim accounts during its interim audits, thereby lessening the burden of its final audits. The accounting instructions will have to be sent earlier in the year in order to make it possible for the Court to proceed with a maximum number of useful tests starting with the interim phase.

## **1 - Interim Audits**

**III.7** The interim audit missions took place from September to December 2007. Their purpose was to evaluate the risk of material misstatements in the accounts on the basis of two series of tests. The first one is related to a correct application of accounting procedures; the second one, the effectiveness of the internal control systems.

**III.8** The evaluation of the risk of material misstatements in an accounting area makes it possible to adapt the intensity of the final audits, which consist of examining the accounting entries (see below).

**III.9** The interim audits were performed in the 15 "ministries", according to the sense of the term given in the Budget Act for 2007. These audits included a portion that was common to the whole Administration and a portion adapted to the accounting stakes applicable to each Ministry.

**III.10** The common portion consisted of two sections. The first concerned the analysis of the Ministerial Accounting Organization through the examination of the changes in the Ministerial Budgetary and Accounting Control Divisions since 2006, the description of budgetary and accrual accounting, actions for increasing the reliability of closing and adjusting entries reliable, development of service agreements

between the Ministerial Accounting Units and the Centralizing Public Treasury local offices and the establishment of invoice clerk units. The second section concerned the evaluation of the development of the systems for accounting risks control by means of examination of the implementation of the internal control systems, development of the internal audit function and related Ministerial Action Plans.

**III.11** The portion adapted to the accounting stakes applicable to each Ministry according to the governmental organization in effect as of January 1<sup>st</sup>, 2007 had the purpose of carrying out in-depth controls on procedures applicable to the following areas:

- For the Ministry of Economy, Industry and Employment, and the Ministry for the Budget, Public Accounts, and the Civil Service: the off-balance sheet commitments and contingency provisions, intangible assets, tangible assets, staff expenditure and income, operating expenditure and income as well as transfer and programme income and expenditure;
- For the Defence Ministry: intangible assets, tangible assets, stocks, staff expenditure and income, as well as operating expenditure and income;
- For the ministries of national education and higher education and research: intangible assets, staff expenditure and income, operating expenditure and income, and transfer and programme income and expenditure;
- For the ministries of culture and communication: tangible assets, inventories and transfer and programme income and expenditure;
- For the ministries of youth and sports: off-balance sheet commitments and contingency provisions as well as transfer and programme income and expenditure;
- For Prime Minister's offices: off-balance sheet commitments and contingency provisions as well as staff expenditure and income;
- For the Home Ministry : tangible assets, inventories, personnel expenditure and income, operating expenditure and income, and transfer and programme income and expenditure;
- For the Foreign and European affairs Ministry: off-balance sheet commitments, contingency provisions, tangible assets, and transfer and programme income and expenditure;

- For the Ministry of Justice: tangible assets and operating expenditure and income;
- For the Overseas Ministry: transfer and programme income and expenditure;
- For the Labor Ministry: transfer and programme income and expenditure;
- For the Ministry of Health and Social Solidarity: the other tangible assets and inventories as well as transfer and programme income and expenditure;
- For the Ministry of Transport, Equipment, Tourism and the Sea: the intangible assets, tangible assets, operating expenditure and income as well as transfer and programme income and expenditure;
- For the Ministry of Agriculture and Fishing: the off-balance sheet commitments and contingency provisions as well as the transfer and programme income and expenditure;
- For the Ministry of Ecology and Sustainable Development: the off-balance sheet commitments and contingency provisions as well as tangible assets.

**III.12** The Ministry of Economy, Industry and Employment and the Ministry for the Budget, Public Accounts and the Civil Service were the subject of verifications which were appropriate for the procedures which they are solely responsible for (financial debt, financial futures, liquid assets, loans and advances, participations and related receivables, government revenues).

**III.13** Concerning relations between the Central Government and the Social Security, the verifications made with the Ministry for the Budget, Public Accounts and the Civil Service involved taxes and surcharges allocated and accounting determination procedures. Examination of internal control of operations managed by social security institutions for the Government's account, included in transfer and transfer transactions, were supported by verifications carried out by the Court in connection with the external audit of the financial statements of the General System of Social Security in addition to those carried out at Central Government Directorates.

**III.14** A specific study concerning the accounting and financial system and the overall quality of the accounts of Central Government implementing partners was carried out on the following sample of implementing partners: the Agency for Financing Transport Infrastructures of France (AFITF), the Loire-Bretagne Water Agency, Agency for Industrial Innovation (AII), French Association for

Standardization (AFNOR), National Association for Adult Professional Training (AFPA), French Institute for Petroleum (IFP), National Institute for Health and Medical Research (INSERM), University of Paris IV (Sorbonne), Adour-Garonne Water Agency, French Agency for Food Safety (AFSSA), National Agency for Management of Radioactive Wastes (ANDRA), National Agency for Urban Renewal (ANRU), Agency for French Education Abroad (AEFE), French National Library (BNF), Institution for Guarantee of Social Rental Housing (CGLLS), Institute for the Public Domain and the Versailles National Museum and University of Paris VI. This study was completed by operations involving work carried out by the Court in connection with organic controls for the following Government implementing partners: Atomic Energy Commission (AEC), National Institute for the Industrial Environment and Risks (INERIS), Central Laboratory for Bridges and Roads (LCPC), Conservatory for the Coastal Area and Shores of Lakes (CELRL), National Centre for Spatial Studies (CNES) and National Centre for Scientific Research (CNRS).

**III.15** Lastly, audits of IT systems were carried out in order to evaluate the risks associated with certain components of the Government's financial and accounting information system: *TELSAT*, which manages procedures for awarding securities issued by the French Treasury Agency; *SIFT Marché*, which manages market operations carried out by the French Treasury Agency; *REP*, which ensures follow-up of various Government revenues (except tax revenues), *PSAX* which makes possible the follow-up by the Centralizing Public Treasury local offices of certificate operations of the Bank of France and IEDOM; *PSAR*, which centralizes the payment operations of the Public Treasury for their transmission to the Bank of France; *GIRAFE*, which makes possible the management of payment and related matters for Government agents; *VISA3*, which makes possible the consolidation of pension files; *AGAPE*, which manages compensation of teachers at the first level; *SOFI*, which makes possible the accounting for state revenues received for the general management of customs and indirect taxes; the applications for collection of general tax receipts managed by the Centralizing Public Treasury offices, *REC*, *MEN* and *RAR* as well as the applications *DDR3* and *SCR3* which ensure accounting at the Non-Centralizing Public Treasury local points which are not centralized and process their transactions in the Government's accounts.

**III.16** At the end of the interim audits, the Court, based on Article R. 137-2 of the Code of Financial Jurisdictions, sent the Secretary-Generals of the ministries, the Director general of the Public Accounting and the Directors of all directorates concerned, as applicable, 21 summary reports of the interim audits, including 239 points needing attention

matched with recommendations and 16 statements of provisional observations under the accounting valuation memoranda, containing 292 recommendations or points on which attention is called.

## 2 - Final Audits

**III.17** The final audits, which had the purpose of locating possible misstatements in the accounts, took place in February and March of 2008. Considering the time limits for closing the accounts and production of the financial statements, the useful period for control was nevertheless limited to a period of 17 business days, to which were added five days devoted to the review of the notes to financial statements.

**III.18** The planning and carrying out of the final audits were based on the 14 audit assertions for operating flows, account balances at the end of the period as well as the presentation, and information disclosed in the financial statements. The verifications were carried out essentially by means of tests concerning the details of operations and balances. The implementation of analytical reviews which consist in comparing the data of one fiscal year with another was rendered impractical in the majority of cases due to limited information concerning the 2006 fiscal year, the first period of application of the Government accounting standards. Lastly, in numerous cases, the justifications for the accounts necessitated repeating the accounting controls from one end to the other.

**III.19** The verifications carried out for the accounts of the Senate and National Assembly by external auditors designated for that purpose by the *Conseil supérieur de l'Ordre des experts comptables* and the due diligence with regard to the accounts of the Supreme Court under the responsibility of its financial advisor were implemented in connection with a limited examination, according to the standards of the profession. In this context, the auditors also proceeded with the valuation of the appropriate kind of accounting frame of reference adopted by each Assembly, the review of the application of this frame of reference to the opening balances of the balance sheet and operations for the fiscal year, and the review of the principal procedures for internal control in production of annual financial statements.

**III.20** Computerized analyses of the data from accrual accounting were made on all of the accounts for managing the 157 centralizing Public Treasury local offices.

**III.21** Furthermore, specific audit works were carried out in order to verify by means of a representative sample of expense operations, the validity of the accounting entry error rate coming from by the structured expenses control system and to identify the precise weight of material errors likely to make the accounts incorrect, as defined by the Public Finances General Directorate.

**III.22** Lastly, an audit of the operations carried out by the financial authorities was conducted at the request of the Prime President of the *Cour des comptes* by experts designated by the *Conseil supérieur de l'Ordre des experts comptables*. No material misstatement was brought to the attention of the Court.

**III.23** At the end of the final audits of the Government's accounts for the 2007 fiscal year, 232 audit observations were issued, of which 115 concerned requests for changes in the Central Government financial statements, that is 41 more than during the course of the previous fiscal year.

**III.24** The adjustments requested by the Court and taken into account by the Administration represented a total of €14.7 billion in absolute value on the income statement (having a cumulative impact of improving the balance of operations of the fiscal year by €3.0 billion) and €22.3 billion in absolute value on the balance sheet (having a cumulative impact of a net deterioration in the situation by €10.1 billion). The reclassifications requested and accounted for amounted to €25.8 billion for the income statement and €5.0 billion for the balance sheet.

**III.25** The adjustments requested by the Court and not accepted by the Administration represent a total of €1.3 billion in absolute value on the income statement (and would have had a cumulative impact of a deterioration in the balance of operations for the fiscal year of €1.3 billion) and €11.2 billion in absolute value on the balance sheet (and would have had a cumulative impact improving the statement of net position by €9.5 billion). The reclassifications requested which are the subject of disagreement concern solely the balance sheet and are €7.5 billion.

**III.26** The Court checked the quality of the financial information presented in the notes to the financial statements for 2007 and sent the Administration 39 additional audit observations, each one including several requests for changes. The notes to the financial statements specify the accounting options made by the Administration, the uncertainties affecting certain items of financial statements and the audit observations of the Court which could not practically be integrated into the financial statements for 2007 but will be in 2008. The notes also mention certain

commitments made by the Administration to improve the quality of the accounts in conformity with the requests of the Court.

**III.27** Throughout this period, the exchanges between the Court, the General Directorate of Public Accounting and the main administrations involved were constant and intense. Discussions took place in the Committee for Exchange and Follow-up, jointly chaired by both the president of the inter-chamber group “Execution of the Government Budget and Accounts” of the Court and the Head of the General Directorate of Public Accounting, now the Head of the Public Finances General Directorate, and also in the technical group of this Committee. All of the Secretary-Generals presented their Ministerial Action Plan before the Committee.

**III.28** The external audit draft report (introduction, detailed observations, report on the audit engagements conducted) submitted for comment to all the ministries with regard to the part or parts concerning them and gave rise to hearing 17 Secretary-Generals and central Administration Directors on May 5, 2008 before the inter-chamber group “Execution of the Government Budget and Accounts”.

## **List of the Reports Published by the *Cour des comptes* since January 1<sup>st</sup>, 2005**

- \* **Annual Public Report (February, 2008)**
- \* **Annual Public Report (February, 2007)**
- \* **Annual Public Report (February, 2006)**
- \* **Annual Public Report (February, 2005)**
  
- \* **Report on Execution of the Budget Acts for the Year 2006:**
  - Outturn and Management of the Budget – 2006 Fiscal Year (May, 2007)
  - Audit Opinion on the Central Government Financial Statements – 2006 Fiscal Year (May, 2007)
  - Situation and Outlook of Public Finance (June, 2007)
  
- \* **Reports on Execution of the Budget Acts for the Year 2005:**
  - Outturn and Management of the budget – 2005 Fiscal Year (May, 2006)
  - Central Government Accounts – 2005 Fiscal Year (May, 2006)
  - Situation and Outlook of Public Finance – Prior to the Budgetary Orientation Debate (June, 2006)
  
- \* **Reports on Execution of the Budget Acts for the Year 2004:**
  - Outturn and Management of the Budget (June, 2005)
  - Central Government Accounts (June, 2005)
  - Preliminary Report of the Budgetary Orientation Debate (June, 2005)

- \* **Audit Report on the Financial Statements of the General Social Security System – 2006 Fiscal Year (June, 2007)**
- \* **Report on the Execution of the Social Security Budget Act (September, 2006)**
- \* **Report on the Execution of the Social Security Budget Act (September, 2005)**

**Special Public Reports :**

The Railway Network: An Incomplete Reform, An Uncertain Strategy (April, 2008)  
The Great Cultural Sites (December, 2007)  
Aids to Economic Development of National Municipalities (December 2007)  
Social Institutions for Personnel of the Electric and Gas Industries (April, 2007)  
Management of Public Research in the Life Sciences (March, 2007)  
Homeless Persons (March, 2007)  
French Aid to Victims of the Tsunami of December 26, 2004 (December, 2006)  
University Map of the Île-de-France: A Necessary New Plan  
French Ports Under Changing Maritime Transport: Urgency for Action (July, 2006)  
The Personnel of Public Health Institutions (April, 2006)  
Changes in Unemployment Insurance: Compensation with the Help of Return to Employment (March, 2006)  
Surveillance and Reintegration: Prison Management (January, 2006)  
Inter-Municipal Relations in France (November, 2005)  
Dependent Elderly Persons (November, 2005)  
Management of Research in Universities (October, 2005)  
Urban Public Transport (April, 2005)  
The Bank of France (March, 2005)  
The Dismantlement of Nuclear Installations and Management of Radioactive Waste (January, 2005)

\* **Control of Charitable Organisations**

The National League against Cancer (October, 2007)

The Quality of Financial Information Given to Donors  
by Charitable Organisations (October, 2007)

“Aid For All Kinds Of Distress” Foundation – ATD  
Quart Monde (March, 2007)

“Catholic Aid” Association (March, 2007)

“Alzheimer’s and Related Maladies in France”  
Association (June, 2006)

“Abbé Pierre for Housing for the Underprivileged”  
Foundation (June, 2006)

Association for Cancer Research – ARC (February,  
2005)