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PRESS RELEASE

Financial results and budget management, Audit opinion on financial statements of the Central Government for the fiscal year 2009

In accordance with the Constitutional Bylaw on Budget Acts (referred to as its French acronym "LOLF"), the *Cour des Comptes* has issued its annual report on the Central Government Financial Results and Budget Management for the fiscal year 2009, along with the Audit opinion of the financial statements for 2009. These documents were submitted to the Senate's and National Assembly's Finance Commissions on May, 26th, 2010.

These two documents show a **deterioration of the Central Government financial results for 2009**, but also consider that the **Central Government's financial statements may be regarded as lawful, truthful, and present a fair view of its financial and patrimonial situation.**

Still, the *Cour des comptes* issues **nine qualifications (i.e. three less than last year), eight of which regarded as substantial, related to clearly identified financial stakes.**

And if the State accounts indeed suffered from a **severe deterioration**, mainly but not only due to the economic crisis, there is **no hidden risk.**

The report on the Central Government's financial results and budget management for 2009 assesses the conditions under which its operations were managed and gives an insight on its results.

The Central Government financial results for 2009

The fiscal year ended in 2009 with a **deficit of 138 billion euros**, i.e. one and half time the year 2008 deficit. Year 2009 deficit amounts to nearly half of the Central Government net expenditures or to more than the two thirds of its net tax incomes.

The first consequence of the financial and economical crisis was the sharp drop of the Central Government net tax incomes, which were brought back to a level close to that of 1979, on a current perimeter but on a like-for-like euro basis.

The crisis also made necessary for the Government to support the economy and to avoid further aggravation of the recession and of its social side-effects, **by taking measures which reduced the incomes and increased the expenses.**

Taking into account the variation of the special accounts balance, **net expenses have increased by 21.5 billion euros, i.e. a 7.7% growth compared to 2008.**

Altogether, the *Cour des comptes* was able to establish that **the crisis and the measures adopted to face it worsened the Central Government deficit by nearly 63 billion euros compared to that of 2008, i.e. three quarters of its overall deterioration**, accounted for about 82 billion euros.

The deterioration of the financial situation does not solely result from the economic crisis or the effects of the recovery plan. Some measures decided before the beginning of the crisis had an impact on the fiscal year 2009.

Therefore, **the tax relieves granted in 2007 and 2008 have created cost overruns by 5.2 billion euros in 2009**: the cost of the law in favour of work, employment and purchasing power adopted in August 21st 2007, known as TEPA law, is superior by 2 billion euros to the costs registered in 2008 and reaches a total of 9.7 billion euros in 2009.

New tax relieves were adopted in 2009 and generated a decrease in incomes by 1.4 billion euros, mainly due to the lowering of V.A.T. in the catering industry.

The accrual accounting net income and the Central Government balance sheet: the financial and patrimonial situation in 2009

Accrual accounting provides financial information and analysis beyond the annual horizon of the budget voted by the Parliament and gives an exhaustive vision of the commitments that the Central Government will have to honour in the future.

The **net equity** of the French Central Government, which results from the difference between its assets and liabilities, **worsened by 105 million euros in 2009 to reach – 723 billion euros** as of December 31, 2009.

With a **balance of – 97.7 billion euros** in 2009, the **net income** has deteriorated by 136% in the last two years, as a result of the **reduction of tax revenues** and the **progression of some expenses**.

The audit opinion registers significant progresses

From this point of view, **the financial year 2009 has unmistakably been a year of progresses, resulting from the important efforts of the administration to settle the difficulties**, some of which have been pending for years.

The *Cour des comptes* decided to lift three qualifications formulated on the accounts of the former accounting exercise. They dealt with the way the **cash accounts** are followed and justified, the **accounting of the Central government's participations** in multilateral funds and organisms and the **transcription of the assets granted in service concession arrangements**, which led to increase assets recorded by 130 billion euros. This is one major event of 2009, as it successfully contributed to improve the Central government's balance sheet fair image.

Some other significant improvements have been achieved, but not enough though to lift the qualifications previously attached to them.

These results confirm the validity of the positioning adopted by the *Cour des comptes*.

When the *Cour des comptes* originally decided to certify the Central government's financial statements with numerous qualifications, the purpose was to support the accounting reform. Over the last three years, nine qualifications have been removed (even if new issues appeared in the meantime). There is still a long way to go. For instance, **the corrections made in the accounts on the request of the *Cour des comptes* have reached about 10% of the net income and equity**.

The Cour des comptes issues 9 qualifications on the French central government's financial statements of 2009.

These qualifications relate, with various degrees of seriousness, to all the items of the profit and loss statement and of the balance sheet, as well as of the footnotes.

- 1- Financial and accounting information systems of the Central Government
- 2- Ministerial internal control and audit systems
- 3- The inventory and valuation of governmental agencies
- 4- The costs and liabilities of intervention expenditures
- 5- Defence Ministry assets
- 6- Tax revenues
- 7- Real estate holdings of the Central government
- 8- The Social Security debt repayment fund (CADES)
- 9- Other assets and stocks of civil Ministries

Solving the difficulties pointed out by the *Cour des comptes* will take time.

Still, the necessity of having reliable financial statements has never been so important:

- The transparency of public finances has become a significant appreciation criterion for the markets;
- The accrual accounting data should feed the managing and decision-making tools, and be useful to the managers and for the reform of the Central government;
- Reliable financial statements are the condition of a pertinent economic analysis of the Central government's situation, which goes beyond the annual budget and should therefore be considered as one of the key elements of this analysis.

France is one of the few countries in the euro zone to submit each year the Central Government's financial statements to an independent audit.

Furthermore, France also distinguishes itself with the high level of detail and transparency provided by the Cour des comptes audit opinion, which exhaustively discloses the relevant audit matters encountered.

France thus provides all parties with means to properly interpret its financial statements.

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