Cour des comptes

CENTRAL GOVERNMENT'S GENERAL ACCOUNTS, TEN YEARS ON

A new step beckons

Thematic public report

February 2016

Table of contents

Cour des Comptes public reports

– Drafting and publication –

Each year, the Cour des Comptes publishes an annual public report and public thematic reports.

This is a public thematic report.

Cour des Comptes public reports are based on the audits and investigations carried out by the Cour or the Regional and Territorial Chambers of Accounts, and sometimes jointly between the Cour and the Regional and Territorial Chambers or between Chambers. External experts are asked to contribute where necessary, and consultations and hearings are arranged to obtain broad and varied clarification.

The work of the Cour des Comptes and related issues, including the preparation of draft texts for public reports, are carried out by one of the seven Chambers or by a group of several Chambers.

Three fundamental principles govern the organisation and activity of the Cour des Comptes and the Regional and Territorial Chambers of Accounts, the conduct of their audits and investigations and the drafting of public reports: independence, fair hearing and collective responsibility.

The institutional **independence** of financial courts and the statutory independence of their members guarantee that they have complete freedom in their work and findings.

The **fair hearing principle** means that all findings and assessments resulting from an audit or investigation and all subsequent observations and recommendations are routinely submitted to the heads of the authority or agency concerned; they may be made final only after consideration of the responses received and, where appropriate, after hearing the officials concerned.

Before a public report is published, the proposed draft must be presented for consideration to Ministers and to the directors of the bodies concerned, and to any individual or entity which is directly concerned. Their responses are always included with the text in the published report.

Collective responsibility applies in completing the principal stages of audit and publication procedures.

All audits and investigations are assigned to one or more rapporteurs. Their investigation reports and any subsequent provisional or final draft observations and recommendations are considered and studied collectively by a Chamber or another body with at least three judges, one of whom acts as shadow-rapporteur with responsibility for monitoring the quality of audits. The same applies to draft public reports.

The content of draft public reports is defined and their preparation is supervised by the Public Report and Programmes Committee, comprising the First President, the Public Prosecutor and the Cour's Chamber Presidents, one of whom acts as general rapporteur.

Finally, draft public reports are submitted for adoption to the Cour in chambers, under the chairmanship of the First President, in the presence of the General Prosecutor, the Cour's Chamber Presidents, the *conseillers maîtres* [chief auditors] and the *conseillers maîtres en service extraordinaire* [special chief auditors].

Judges who are obliged to disqualify themselves due to present or former duties or for any other ethical reason may not participate in the decisions of collegial benches.

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The public reports of the Cour des Comptes may be consulted on the website of the Cour and Regional and Territorial Chambers of Accounts: www.ccomptes.fr.

They are published by ***La Documentation Française***.

Report and participants

The Cour des Comptes, having deliberated in ordinary session, has adopted this report on *Government general accounting, ten years on: a new stage.*

The report was finalised after the draft was presented to the Prime Minister.

Discussion participants: Mr Migaud, First President; Mr Durrleman, Mr Briet, Mrs Ratte, Mr Vachia, Mr Paul, Mr Duchadeuil, Mr Piolé and Mrs Moati, Chamber Presidents; Mr Bertrand, Mr Levy, Mrs Froment-Meurice and Mr Lefas, co-opted Chamber Presidents; Mr Ganser, Mr Cazala, Mr Banquey, Mrs F. Saliou, Mrs Ulmann, Mr Martin, Mr de Gaulle, Mr Uguen, Mrs Gadriot-Renard, Mr Mousson, Mr Chouvet, Mrs Malgorn, Mr Clément, Mr Léna, Mr de Nicolay, Mrs Latare, Mrs Dardayrol, Mr Delaporte, Mr de La Guéronnière, Mrs Périn, Mrs Coudurier, Mrs Faugère, Mr Rocca, Mr Dubois, Mr Thévenon, Mrs Saurat, Mrs Latournarie-Willems and Mrs Hamayon, chief auditors; Mr Sarrazin, Mr Blanchard-Dignac and Mr Corbin de Mangoux, special chief auditors.

The following were heard:

- in the presentation, Mr Briet, chair of the inter-chamber group responsible for the work on which the report is based and preparation of the draft report;

- in the report, Mr Paul, general rapporteur, rapporteur of the draft before the Chamber of the Council, assisted by Mr Vareille, senior auditor, and Mr Zérah, expert, rapporteurs before the inter-chamber group responsible for its preparation, and Mr Belluteau, chief auditor and shadow-rapporteur for that group;

- in its conclusions, taking no part in the deliberations, Mr Johanet, General Prosecutor, accompanied by Mr Kruger, First Solicitor-General.

Mr Filippini, Secretary-General, acted as secretary to the Chamber of the Council.

Done at the Cour de Comptes, 16 February 2016.

The draft report submitted to the Chamber of the Council was drawn up and subsequently deliberated upon on 7 December 2015 by an inter-chamber group chaired by Mr Briet, President of the Chamber, and comprising Mr Cazala, Mr Barbé, Mr Charpy, Mrs Trupin, Mr Rigaudiat, Mrs Latare and Mr Lallement, chief auditors, and, as rapporteurs, Mr Vareille, senior auditor, and Mr Zérah, expert, and, as shadow-rapporteur, Mr Pannier, and Mr Belluteau, chief auditors. Mr Kruger, First Solicitor-General, represented the General Prosecutor. Mr Ferriol, senior auditor, took part in the appraisal of the report.

The draft report was examined and approved on 5 January 2016 by the Public Report and Programmes Committee of the Cour des Comptes, comprising Mr Migaud, First President, Mr Durrleman, Mr Briet, Mrs Ratte, Mr Vachia, Mr Paul, general rapporteur of the committee, Mr Duchadeuil, Mr Piolé, Mrs Moati, Chamber Presidents, and Mr Johanet, General Prosecutor, whose opinions were heard.

Introduction

In the spring of 2016, the State will, for the tenth consecutive year, publish accrual-based financial statements drawn up under Article 27 of the Constitutional Bylaw of 1 August 2001 on Budget Acts (LOLF).

The intention of the legislature in introducing this accounting system was to provide a more complete and authentic picture of the Government's financial position and to help to measure and improve the performance of departmental managers and make them more accountable.

Since sufficient time has passed to be able to assess both the contribution and the limitations of this public accounting system, which is based heavily on general business accounting, the Cour des Comptes included a survey of the results of the introduction of government general accounting in its 2014 and 2015 work programmes.

Under Article L. 111-3 of the Financial Jurisdictions Code and the professional standards of the Cour des Comptes and its Regional and Territorial Chambers of Accounts, the survey sought to make an independent, objective and documented assessment of the extent to which government general accounting is consistent with the principles of effectiveness, efficiency and economy associated with good governance.

The survey did not attempt to describe or assess the picture of the Government's financial position arising out of its general accounting, or to highlight the qualifications the Cour has repeatedly raised in certifying government accounts.

Rather than analysing the financial statements themselves, the Cour focused on the process by which they are drawn up to clarify how far the choices made were consistent with the expectations of the legislature and the aim of good use of public funds. The Cour carried out its analysis in an unchanged legislative framework.

The recommendations made at the time of the survey add to but do not replace those made in other works.

There are three parts to this report:

- the first part recaps the grounds for introducing general accounting into the government accounting system and highlights its principal characteristics;
- the second part assesses the current situation of government general accounting, detailing both its contribution and its limitations, particularly with respect to the expectations set out by the legislature where relevant;
- the third part makes two series of recommendations for improving the process of establishing government general accounting and promoting its use.

Chapter I

The will to transform government accounting and management

As the documents preparatory to the vote on the Constitutional Bylaw of 1 August 2001 on Budget Acts (LOLF) show, there were two reasons for introducing general accounting into the government accounting system: it was intended, on the one hand, to respond to repeated criticisms of government accounting as regulated by the Order of 2 January 1959 establishing the Constitutional Bylaw on Budget Acts and by the Decree of 29 December 1962 on the general regulations on government accounts; it was intended, on the other hand, to promote governance and the good use of public funds by drawing on the good practices applied in large businesses and in other countries.

I - A largely obsolete accounting system

Before the vote on the Constitutional Bylaw on Budget Acts, the government accounting system was criticised on a number of counts: its inability to serve the needs of its users, Members of Parliament in particular; lack of transparency regarding the Government's financial position; its insufficient contribution to the sincerity of the process of drawing up and voting on the budget; and its failure to provide a consolidated view of the overall situation of government units.

An in-depth reform of the government accounting system therefore appeared to be necessary. While helping “better to enable Parliament to exercise its budgetary powers”, the reform was meant to “improve governance” by modernising administrative procedures and adopting practices resembling those used in countries which were more advanced in this area and in large businesses.

A - New needs which government accounting did not meet

In the mid-1990s, the government accounting system was unable to meet the needs expressed by Members of Parliament.

1 - Lack of transparency regarding government assets and its financial position

The Order of 2 January 1959 governing the presentation, voting on and implementation of the government budget until 2005 did not require the Government to adopt accrual accounting. Government assets and finances were neither assessed on a regular basis by the administration nor submitted to Parliament.

From 1994, the mission on the responsibilities and organisation of the Government had observed that “government and ministerial accounts [were] (…) too rudimentary” and that “truth and clarity [were] not apparent”. The objectives established for the Interministerial Committee for State Reform (CIRE) when it was set up in 1995 included the modernisation of accounting rules to strengthen the information made available to Parliament and the clarity of expenditure. In 1997, the Senate called for an “acceleration in the implementation of accrual accounting”.

The finance authority’s general account, which records transactions brought together by the central treasury accounting agency, was improved from 1998 with asset information relating to the financial debt and tangible assets, obtained by restating fiscal data outside the accounts. An analysis of tax receivables write-down and notes describing certain off-balance sheet commitments accompanied this restatement.

Other sources helped to clarify the Government's financial position in part (such as the report on the Government as shareholder published since 2001, the debt register published by the Directorate-General of the Treasury and the inventory of government property drawn up at the time by the Directorate-General of Public Accounting).

Progress was nevertheless slow and piecemeal. A number of parliamentary reports published in early 2000 noted that the State's assets and its financial position continued to be largely unknown, due mostly to accounting system limitations.

2 - Accounting system's insufficient contribution to budget sincerity

Under the Order of 2 January 1959, government income and expenditure were tied to the budget year of payment or receipt. In addition, no transaction could be charged to a budget year when that year was closed. This rule could have allowed the settlement of certain expenses to be deferred, thereby artificially reducing the deficit for the year concerned.

This may have led to infringements of the principle of budget sincerity, reported by the Cour and in several parliamentary reports, highlighting the inadequacy of information available to elected officials on the flow of goods or on services pending, third-party claims against the State, actions pending to which the State was a party, guarantees granted or pension commitments made to the benefit of office-holders, etc. What is more, since accurate information on the value of government assets and their development over time was not available, Parliament was unable to assess government investment strategy or the allocation of funding to maintain or renew such assets.

Thus, in order to clarify the annual budget authorisation and improve the assessment of government financial sustainability and management performance, the government accounting system had to develop so that an accrual basis inventory could be made of the legal commitments to be charged against the State, including those that would not be translated immediately into cash.

3 - Lack of a consolidated view of public-sector accounts

The regulatory framework of government accounting did not develop significantly following the entry into force of the decentralisation laws (1982), the creation of the social security finance acts (1996) or the introduction of the stability and growth pact (1997). These reforms did, however, promote the development of the role of Parliament in public finances and create new financial and budget information needs.

By broadening territorial authority responsibilities, the decentralisation laws created the notion of public policies shared between these authorities and the State, which had nevertheless continued to be active at local level. The introduction of the social security finance acts was manifested in the establishment of a new parliamentary mission to monitor the general conditions of the balance of social protection. The stability and growth pact enshrined the principle of public finance control throughout government.

In response to these changes, Parliament wanted to ensure that the government accounting system developed to provide a global view of public-sector accounts, bringing together the accounts of the State, its operators, social security bodies and local and territorial authorities.

B - Accounting, a lever of government reform

In addition to the need to bring the government accounting system up to date, the accounting reform was required to make an important contribution to modernising governance.

This ambition, a common theme in parliamentary proceedings, arose out of the belief that certain examples of poor governance resulted from a lack of financial indicators, particularly regarding costs. It was also broadly based on the notion that, in order to be more effective, the State had to bring its management practices closer to those of large businesses.

1 - Unsatisfactory governance due to the absence of cost accounting in particular

An organisation's operational accounting is both an essential obligation to ensure effective external control and third-party information on its financial position, and a good practice leading to better performance. The accounting reform was therefore expected to strengthen parliamentary control of public finances but also to improve the management of government services.

This expectation arose in a context in which, despite the applicable legislation, the State usually did not have indicators describing the cost of the goods and services it provided. When such indicators were available, they were not always calculated on the basis of financial data. Because they were not systematically exploited, they were rarely used to allocate the available resources. More generally, the financial impact of measures taken by the Government or the administration was not usually assessed before they came into effect.

The inability of the accounting system to shed light on the scope of the commitments made and the financial risks incurred was criticised because it helped to disguise the true financial performance of authorising officers. The lack of a policy for managing government assets and the lack of IT decision-making support tools, particularly in budget matters, were also common complaints.

All in all, there was a general view that government accounting was not an effective tool for managing and a fortiori controlling government standard-setting or economic activity, hence the need for an in-depth reform.

2 - Examples of successful reforms in several foreign States

In the 1990s, several States[1], some of which had consolidated their finances in the preceding period, sometimes radically, initiated ambitious budget reform programmes. These generally included the development of general and cost accounting, the introduction of which had a variety of effects:

- in most cases, they facilitated new management methods based on those commonly used in large businesses;
- in certain countries such as Canada, the United Kingdom or the United States, the reform gave rise to the consolidation of accounts, whereby each government department and each agency is responsible for producing their accounts, which are then consolidated along the lines of the British "Whole of Government Accounts"[2];
- several countries required the accounts of the main central government units to be audited by an external certifying body; in the United States, this duty was devolved to the Government Accountability Office (GAO);
- in certain countries such as Sweden, the reform focused not only on central government units but on the public sector as a whole, where all government units introduced accrual and cost accounting;
- a small number of countries such as New Zealand and Iceland introduced full accrual budgeting, providing for the budgets of central government units to be drawn up in a form based on the annual accounts of businesses.

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[1] New Zealand, United States, Sweden, Canada, Finland, Denmark, Iceland, UK, Austria, Netherlands.

[2] The first consolidated accounts of government units under IFRS standards related to the 2009-2010 financial year.

In France, these examples heavily influenced the thinking of senior officials and Members of Parliament, particularly with respect to the fear that the country would "lag behind[3], and characterised the choices made to reform the French accounting system.

3 - Bringing management of government closer to large business management

The State intended to bring its financial practices closer to those of large businesses even before the vote on the LOLF.

Since 1994, the mission on government responsibilities and organisation had suggested that government accounts should be certified "in the same way as a business and with the same consequences", and that public accounting rules should be brought closer to the general accrual accounting rules applicable to businesses. Integrated management software (IMS) was acquired in 1996 with a view to basing the finance function of the Government as a whole on the model adopted by large businesses.

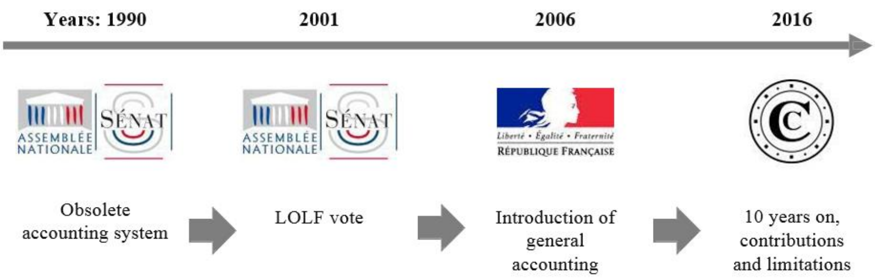
In 1999, a report[4] on the government accounting system called for its reform to take into account the "transformation of financial occupations", where "risk analysis and prevention is widespread, management increasingly includes financial challenges (…) [and] accounting becomes a financial reporting tool".

In January 2001, REXECODE-REXERVICES, which the Senate had commissioned to carry out a study on the statistical information systems of government units, recommended that government accounts should be standardised to make it easier for observers of public finances to analyse them, specifying that "public-sector accounting data should provide information which is at least as accurate, as detailed and as prompt as the data government generally demands from the private sector".

[3] Senate, Information report No 37 on behalf of the Finance, Budget Control and National Economic Accounts Committee on the study carried out on the reform of Order No 59-2 of 2 January 1959 establishing the Constitutional Bylaw on Budget Acts, October 2000.
[4] See Mission on asset accounting under the responsibility of Mr Jean-Jacques François, Paymaster General, *Le système financier de l'État en question* [The government financial system under the spotlight], 1998.

In July 2003, the Federation of European Accountants (FEE), however, warned of the risks for the public sector of implementing accrual accounting without involving the profession.

Figure 1: Government accounting reform



II - The adoption of an ambitious reform

The accounting reform arising out of the LOLF, which abandoned several initial approaches, introduced a new system of accrual accounting which was separate from the government budgetary and national accounting systems.

A - The decisions of the legislature in 2001

Several approaches to reform envisaged at the outset were ultimately not adopted in the new accounting scheme.

1 - Accrual budgeting

The initial proposal for the new Constitutional Bylaw provided for the Budget Bill to “adopt general budget and financial balance data, and data from the forecast account balance”, the latter being established on the basis of the rules of choice of general accounting. In the Budget Review Act, it also introduced the recording and approval of “net earnings for the financial year”.

Under these provisions, the budget authorisation issued by Parliament concerned not only the receipt and expenditure balance but also the accounting balance showing the amount of claims received and granted during the financial year. France therefore committed itself to accrual budgeting, in line with a small number of countries that have initiated a budget reform process. When called upon to give its opinion on the bill, the Conseil d'État was initially critical of accrual budgeting[5]. The legislature did not accept this measure, and the Constitutional Bylaw of 1 August 2001 enshrined the maintenance of cash and commitment authorisation budgeting, the contribution of accrual accounting being limited to the "ex post description" of government "financial transactions".

2 - Consolidation of government accounts

The presentation of consolidated accounts, drawn up on the basis of accrual accounting used by government units, was a long-standing demand of Parliament which followed various developments in the institutional environment of public finances from the early 1980s.

The Bill (No 2540) on the Finance Acts did not specifically refer to this, however. Despite the contributions of several Members of Parliament in discussions on the issue, the operative part of the LOLF made no provision in this respect. This choice was subsequently justified by the need to "deal first with the issue of the accounts of the consolidating entity before considering the actual process of consolidation"[6].

[5] The *Conseil d'État* took the view that "it is not possible (…) to add to the budget-type presentation an accrual and imputed costs presentation according to (…) a cash-based rationale", considering that "accrual accounting cannot act as a framework for an economic and financial policy choice". See Conseil d'État, General Assembly (Finance Section), Opinion No 365 546, 21 December 2000.

[6] See National Assembly, Information report No 1021 submitted under Article 145 of the Regulation by the Finance, Economics and Planning Committee on the Implementation of Act No 2001-692 of 1 August 2001 on the Finance Acts, July 2003.

3 - The development of cost accounting

Prior to the preparatory work on the adoption of the LOLF, it was generally accepted that any reform of government accounting should give priority to allowing "costs to be assessed by mission or by function", a knowledge of complete costs being required to establish budget envelopes according to the results obtained. Otherwise, public-sector managers would have continued to be discouraged from actively managing government assets and activities and the scope of parliamentary budget control would have been diminished. This is why the Bill on the Finance Acts provided for the annual performance reports appended to the Budget Bill to include "the full cost of the measures taken during the financial year concerned".

Following debates in Parliament, the drafting of provisions on annual performance reports nevertheless developed, since the presentation of costs was now linked to the programme[7] as a whole, while the State had to "implement an accounting scheme to analyse the costs of the different actions undertaken"[8]. The administration introduced comptabilité d'analyse du coût des actions [cost analysis accounting] (CAC)[9] in response to that obligation.

From 2003, however, Parliament observed that CAC did not meet expectations in terms of cost accounting and management control. In their July 2003 report, the Members of Parliament responsible for assessing progress in implementing the LOLF noted that CAC should not "be confused with cost accounting". Stressing that "the accounting reform process undertaken by government departments [was] virtually silent with respect to cost accounting, which is, however, essential for measuring results", they complained that "the distinction established (…) between 'cost analysis accounting' on the one hand and cost accounting on the other (…) did not particularly [promote] a sound understanding of the challenges of cost analysis and introduced a twofold concept, while papers produced by the legislature suggested that cost accounting alone was concerned".

[7] Except with respect to job authorisations. See Article 54(c) of the LOLF.
[8] Article 27 of the LOLF.
[9] Unlike CAC, "cost accounting is based on general accounting. Its object is […] to measure the costs of a structure, function, project, product produced or service provided and, where applicable, the respective income in order to clarify organisational and management decisions" (Article 59 of the Decree of 7 November 2012).

According to the letter though not the spirit of the legislature's work, comments by Parliament on CAC implementation were not followed by legal consequences. It was generally thought that the effect of cost analysis accounting would be to require government units to "acquire a high-performance cost accounting scheme" and promote an "accounting scheme for decision-making", to be used by officials responsible for management control.

4 - Limited information on the medium-term sustainability of government finances

The lack of information on government legal commitments that may influence its financial position was one of Parliament's main criticisms in relation to the sincerity of the budget debate governed by the Order of 2 January 1959. It was expected, in particular, that by identifying government rights and obligations at financial year-end, its general accounting would improve the information provided to Parliament on "the risks of future financial imbalances"[10].

The legislature nevertheless did not specifically wish to organise the arrangements for informing Parliament of the sustainability of government finances, specifying merely that the notes to its general account should include "an assessment of government off-balance sheet commitments". Thus, although Parliament had for many years made known its wish to receive medium-term projections on the development of the State's principal budget items, the executive was under no obligation to forward such projections to it.

[10] See National Assembly, Working party report on the effectiveness of public expenditure and parliamentary control, January 1999.

B - Government general accounting since 2006

In order to “restore meaning to the Finance Acts”, the Senate had called for the introduction of “a true accounting system”. The LOLF responded by introducing, alongside budget and national accounting, a new system based on general business accrual accounting covering all financial transactions by the State as a legal person and certified by an independent third party according to specific accounting standards.

1 - The choice of a new kind of accounting separate from budget accounting

Far from amounting to a technical issue, the choice not to adopt accrual budgeting had significant consequences for government accounting reform. By reinforcing the essentially “cash-based” presentation of budget authorisation on the grounds of symmetry between the initial Finance Acts and the Budget Review Act, this choice called for a description of budget implementation along similar lines. Budget accounting covering the cycle of government finances as a whole was therefore mechanically preserved[11].

The legislature favoured the “choice (…) of distinguishing, by developing their respective rationale, budget accounting, which underpins and translates the parliamentary authorisation describing cash flows, and general accounting, describing transactions ex post and based on the recognition of rights and obligations”[12].

With the benefit of hindsight, the accounting reform arising out of the LOLF could therefore be interpreted not as calling into question the existing components of the government accounting system, but rather as an extension of that system by introducing a new kind of accounting based on the principle of accruals.

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[11] Budget accounting was enhanced with new tools, including commitment authorisations.

[12] See National Assembly, Report No 2908 on behalf of the special committee responsible for examining Bill No 2540 on the Finance Acts, January 2001.

This principle had already been introduced on a limited basis in the mid-1990s in the accounting rules applicable to certain territorial authorities. Similarly, accrual accounting ultimately replaced cash accounting in the social security system, while the budgeting introduced by the Finance Acts was subsequently done on an accrual basis.

By contrast, the LOLF used two different systems for government finances – cash accounting and general accrual accounting. Only cash accounting allowed the balance forecast to be compared to the balance actually achieved[13].

This raised new challenges, connected in particular to the clarity of the monitoring of government financial transactions in each of its accounting systems, the reciprocal co ordination of those systems and their roles in the decision-making process in financial matters.

The State, moreover, acquired integrated management software (Chorus) to introduce this new accounting system.

2 - A global accounting system based on specific accounting standards

During parliamentary debates prior to the voting on the LOLF, it was envisaged that government general accounting would be kept per ministerial department before being consolidated subsequently, following the British model, for example. This assumption was not well received, the legislature accepting a “holistic” government approach according to which its financial statements covered services as a whole which did not have their own legal personality, according to the principle of the single legal personality of the State.

Having taken this option, the question of the accounting standards to which the State should conform remained open. Since the Conseil d’État had specified that “it was not for the legislature to define the rules of general accounting”, two options arose. The first involved imposing a set of existing rules on the State, i.e. the standards applying to businesses, based on the British model. The second would have required the State to adopt new accounting standards adapted to its needs.

[13] The notion of “forecast account balance” was abandoned.

Neither solution was entirely satisfactory, however. For many reasons (capacity to levy taxes, operational continuity, regulatory functions, etc.), the situation of a State cannot be compared to that of a business. At the same time, providing the State with specific accounting standards might have caused it to “modify its accounting methods in order to manipulate the result of the financial year”, to the detriment of the “principle of sincerity”[14].

Article 30 of the final provision of the LOLF adopted an intermediate approach whereby “the rules applicable to government general accounting differ from the rules applicable to businesses only because of the specific nature of its action”. While preserving useful room for manoeuvre, the legislature thus intended to guard against the risk that accounting standards would develop out of expediency.

In the years following the adoption of the Constitutional Bylaw, the setting of government accounting standards and the implementation of financial statement certification was guided by Article 30. This provided an immediate benchmark for the accounting standard setter[15] and producer of the accounts in terms of the forms government financial reporting should take. Such reporting is consequently closely aligned with that of large businesses.

[14] See Senate, Information report No 37 on behalf of the Finance, Budget Control and National Economic Accounts Committee on the study carried out on the reform of Order No 59-2 of 2 January 1959 on the Constitutional Bylaw on Budget Acts, October 2000.

[15] The Public Sector Accounting Standards Council (CNOCP), created by the amending Finance Act of 30 December 2008 and introduced in April 2009, is required to give preliminary decisions on all draft accounting standards applicable to any public or private legal person “exercising a non-commercial activity and financed mostly by public funds, particularly mandatory levies”. The CNOCP thus sets standards for the accounting of government and its operators, the territorial authorities and social security bodies.

The Government General Account

Every year, the Government presents its financial statements in a document entitled “Government General Account” (GGA). These statements comprise a balance sheet or table of the Government’s net position, an income statement subdivided into three tables (net charge table, table of sovereign revenue and a table showing the balance of financial year transactions) and a cash flow table distinguishing current activity flows, investment flows and financing flows.

These statements are accompanied by notes describing their drafting standards and detailing all the information required to interpret them. It also contains an assessment of government off-balance-sheet commitments.

3 - Certification of Government general accounting

With a view to strengthening the reliability of government accounts, the Bill establishing the Finance Acts provided for the Cour des Comptes to implement a procedure for certifying government accounts, as auditors do for businesses.

This new procedure thus replaced the déclaration générale de conformité [declaration of conformity] between the accounts of chief authorising officers and accountants’ individual accounts.

The certification of government accounts by the Cour des comptes

Entrusted by Article 47-2 of the Constitution with assisting Parliament and the Government to monitor implementation of the Budget Acts, by application of Article 58(5) of the Constitutional Bylaw of 1 August 2001 on Budget Acts, the Cour des Comptes is responsible for certifying the regularity, sincerity and reliability of government accounts.

In its certification statement, the Cour formulates its position every year on the government general account, presents detailed grounds for that position and reports on the checks made. This documentation is appended to the Budget Bill.

Even if the work in preparation for the LOLF did not make it possible to clarify whether the "government accounts" referred to in Article 58 concerned government accounting as a whole under Article 27, or only its general accounting, the certification statement submitted to Parliament each year by the Cour des Comptes focuses on the financial statements arising out of general accounting alone.

CONCLUSION

The reform of the government accounting system sought to respond to the numerous criticisms made against it, particularly its inability to keep close track of government assets, report on government obligations as a whole or describe its financial relations with other government units. The reform also arose out of the will to modernise government management practices to bring them into line with those in the countries at the forefront of budget reform and with the functioning of large businesses.

The decisions taken by the legislature led to the abandoning of a number of approaches envisaged initially, such as accrual budgeting, public-sector accounts consolidation, the systematisation of cost accounting or the development of information on medium-term government financial sustainability. Unlike the social security bodies, which have gradually replaced cash accounting by accrual accounting since the year 2000, the State has retained budget accounting and has supplemented it with a general accounting system kept independently according to a specific accounting framework, and certified by the Cour des Comptes.

These preliminary choices facilitated the implementation of government general accounting and enabled its principal objective to be achieved: to improve the information available on government assets and liabilities. These choices opened a transitional period during which the administration had to adopt new accounting tools – which were more sophisticated but also more demanding than its traditional instruments – without jeopardising budget procedures.

In the light of these observations and, more broadly, the expectations raised by the legislature with regard to government general accounting, the Cour sought to assess the contribution of such accounting to the transparency and effectiveness of governance while identifying the limitations its introduction has had to face.

Chapter II

Ten years on, a modernised

but still little used accounting system

The investigations carried out by the Cour show that general accounting has helped to clarify the Government's financial position and modernise its finance function. The effects have also spilled over into the public domain as a whole.

The contribution of this new kind of accounting, however, falls short of the effort made to introduce it. Thus far, the contribution of general accounting to improving the State's internal management has been limited.

I - An undeniable contribution to accounting

Ten years after its entry into force, government general accounting has met several of its promoters' expectations both in terms of the light it has shed on the Government's financial position and its contribution to modernising its finance function. The introduction of such accounting has also indirectly benefited other public-sector stakeholders.

A - Better knowledge of the Government's financial position

The Cour survey shows that the introduction of general accounting has substantially improved the information available on non-financial assets and liabilities, thus providing a better understanding of the Government's net position and illustrating its continued deterioration since 2006. It is generally agreed that the information published by Government on its financial position is extremely valuable.

1 - Better inventoried, better assessed and better monitored assets

Government general accounting has helped to bring about a substantial improvement in what is known of the State's fixed and current assets. It has made it possible to ensure the reliability of existing real estate inventories[16], for example, and to implement new procedures for identifying government-owned assets, which were not previously monitored.

Government property portfolio: the challenges of market value and identification of property control

Since 2004, the accounting standard setter had provided for part of the Government's property portfolio, essentially office buildings and accommodation, to be assessed at market value. This decision was taken largely because "the market value of the property it occupies is useful to the manager as a knowledge, decision-making and management dialogue tool". This required France Domaine to be able to assess each asset at financial year-end, taking the development of real estate prices for comparable property and areas into account.

[16] Prior to the establishment of general accounting and up to 2009, government-owned immovable property was identified in particular in the general table of government assets, which was not well adapted to account monitoring. See Cour des Comptes, *Interim Proceedings*, Results of government real estate policy, 30 December 2014, 20 p., available at www.ccomptes.fr.

In addition, accounting standards provide that assets included in the government balance sheet are those it controls, in the sense of the accounting framework, rather than those it owns, even if in practice the two notions are not totally dissociated from each other. The assessment of the Government's property portfolio has thus identified its management responsibilities by virtue of the property it occupies.

This assessment, first made for the 2006 financial year, allowed the market value of the Government's office portfolio (€44.9 billion at end-2006, €47.8 billion at end-2014) to be recorded in its accounts.

Besides immovable property, the progress recorded concerned financial assets in particular (e.g. holdings managed by the Agence des participations de l'État [government holding agency] or loans to foreign governments), military supplies, vehicle fleets, in-house software, infrastructure and assets covered by partnership agreements or public service delegations. The Cour has nevertheless indicated that progress remains to be made with respect to the monitoring of financial holdings or Ministry of Defence assets.

In several sectors, such as the ministry responsible for the environment, sustainable development and energy or the ministries responsible for economic affairs and the budget, the process of ensuring the reliability of government asset data continued to improve over several financial years. This made it possible, for example, to allow the value of road infrastructure held by the State and held under concession to be updated in the light of rights granted to concessionaires in particular.

The example of concessions and roads

The 2006 government general account (GGA) indicated that the property entrusted by the State to concessionaires was not identified and was not recorded in its balance sheet. The Cour immediately formulated a qualification on this issue until 2010.

The administration subsequently identified and gradually carried out an increasingly detailed assessment of this property – motorways, water works, railway assets (including tunnels and other infrastructure), airports, ports, etc. – which is recorded in the assets of the government balance sheet at end 2014 at €210.1 billion.

Similarly, the reliability of the identification and assessment of roads has been ensured since 2006. Their value to the assets on the Government balance sheet rose from €104.3 billion at end 2016 to €131.2 billion at end 2014. The assessment method set by the accounting standard is the “depreciated replacement cost”, which involves calculating the cost of rebuilding the network as new, less the expenditure required to restore it.

The qualification raised by the Cour in this respect in the 2006 accounts was lifted the following year, and progress in monitoring road liabilities (works) has continued since then.

In several cases, the requirement to ensure that assets are better assessed also led to an improvement in the rigour of management procedures: formalisation of methods and responsibilities, control of commissioning, introduction of regular inventories, reinforcement of internal control, etc. This modernisation in turn had positive consequences for management by making it easier to reconcile real estate leasing and acquisition, for example. More broadly, the Cour once again pointed out that a complete inventory of the stock of real estate is essential in order to ensure its optimisation.

2 - Liabilities taken into account well beyond the financial debt alone

General accounting has also helped to provide a fresh view of government liabilities.

a) The recording of financial debt

The introduction of government general accounting has not seriously called the recording of financial debt into question. This debt was already monitored on an accrual basis before the entry into force of the Central Government Accounting Standards Manual (RNCE). The possibilities offered by general accounting nevertheless led Agence France Trésor (AFT) to abandon auxiliary or “banking” accounting so that management accounting was recorded directly in Chorus.

Besides lower management costs, the abandoning of banking accounting in favour of general accounting was accompanied by a full examination of debt and cash flow management procedures in the light, in particular, of observations received from the government auditor. This enhanced the reliability of financial debt monitoring in relation to the cost of loan issues, for example. The AFT also found it useful to rely on general accounting to analyse the rate or volume effects of the cost of government debt.

b) The recording of other Government liabilities

In virtually all ministries, general accounting has ensured better monitoring of certain legal commitments in preparation for cash transfers, such as accruals or accounts payable, which budget accounting by disbursement appropriations does not fully take into account. Useful budgeting and management indicators could therefore be addressed to managers while the overall financial position was clarified.

General accounting led the State to identify and assess the potential commitments it could be liable for and then express them for accounting purposes in the form of provisions or off-balance sheet commitments, according to the likelihood of their realisation.

The result is an improvement in the financial transparency of the risks borne by the State, particularly regarding disputes in which it is a party, guarantees granted and pension liabilities[17]. When examining government financial statements for the 2013 financial year, the Cour lifted its reservation regarding non-financial liabilities which it had maintained since the 2011 financial year. In other texts, it stressed the quality of the information available on government off-balance sheet commitments[18].

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[17] Since 2003, civil servant pension liabilities have been detailed in the State's general account for the 2002 financial year, together with an assessment made under the "projected unit credit" method. See Cour des Comptes, *Report on government accounts – 2003 financial year*. La Documentation Française, May 2004, 107 p., available at www.ccomptes.fr.

[18] See Cour des Comptes, *Communication to the Senate Finance Committee, Listing and recording of government off-balance sheet commitments*, May 2013, 215 p., available at www.ccomptes.fr.

Increased transparency of government risks and commitments

Provisions for risks recorded under liabilities in the government balance sheet virtually tripled between end 2006 and end 2014, rising from €7.0 billion to €19.4 billion, with no possibility of determining what part is attributable to increased government exposure to financial risks or to improved monitoring of such risks. The reliability of the latter has undoubtedly improved, as specifically pointed out by the Cour, which in 2009 lifted the qualification it raised on the 2008 accounts with respect to the procedure for identifying and assessing these provisions.

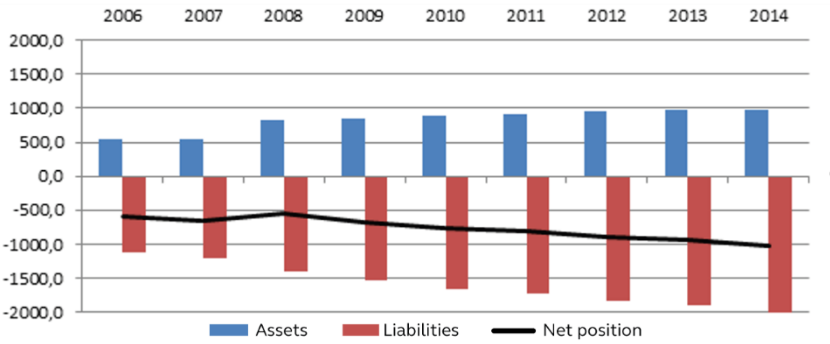
Off-balance-sheet commitments cover very different elements: pension commitments, secured debt, sundry guarantees, commitments relating to intervention mechanisms, etc. Their description in the notes to the GGA is extremely informative, showing in particular that some of the amounts involved are substantial. The pension commitments of civil servants, for example (active and retired), were valued at €1.561 billion on 31 December 2014, an amount approximating government financial debt recorded under liabilities.

A comparison of financial statements between the 2006 and 2014 financial years shows in addition that certain outstanding off-balance-sheet commitments have experienced sustained growth in recent years. Outstanding secured debt virtually quadrupled in eight years, rising from €56.3 billion to €194 billion, influenced in particular by government-granted guarantees to the European Financial Stability Facility (EFSF) and various credit institutions.

3 - – Negative net position in the spotlight

Greater reliability in identifying and assessing the State’s assets and liabilities has highlighted its highly negative net position and substantial deterioration in recent years.

Figure 2: State assets, liabilities and net position between 2006 and 2014 (€ billion, year-end)



Source: Cour des Comptes, based on the government general account 2006-2014

Even if the interpretation of these elements is debatable, particularly due to the lack of comparable data in space and time, this information allows decision-makers to see the Government's financial position in a new light.

4 - Recognised transparency

The financial information published by the Government, particularly from general accounting, compares favourably with that produced by its main partners in the rest of the world, including the more advanced countries in terms of financial transparency. It falls within the positive assessment that several international organisations[19] have made of the functioning of public financial institutions in France. Publication of the GGA has improved the clarity of the State's financial position. The "four-page" pamphlet and the presentation report accompanying the GGA are useful complements, particularly for English-speaking readers.

[19] The Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF), for example.

B - A contribution to the modernisation of government financial services

Even before the LOLF was enacted, the Director-General of Public Accounting noted that “the accounting reform cannot be considered in isolation”, since it “has meaning only if it is part of a global process, the broad guidelines of which are (…) results-based budgeting (…) [and] managerial accountability”[20].

The introduction of general accounting has made an important contribution to the modernisation of the government finance function.

1 - The involvement of managers in producing accounting information

Closer involvement of managers in producing accounting information was a necessity for establishing government general accounting, based on recording legal rights and obligations rather than receipts and disbursements alone. Legal rights and obligations arise initially from the acts of managers, whether concluding contracts, issuing order forms, receiving invoices or recording services rendered. Similarly, due to managers’ knowledge of the state of the resources available to them and of events occurring during the financial year, their active participation is essential to the success of accounting inventory transactions.

In this connection, one of the major issues in introducing government general accounting was the capacity of managers to accept accounting concepts they were not familiar with, such as fixed assets, provisions, expenses or transfers in/out, and to implement new procedures, particularly with respect to internal control and risk management. Investigations carried out by the Cour suggest that, despite the progress made, there is still room for improvement in raising awareness of accounting exposure.

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[20] See Jean Bassères, Director-General of Public Accounting, *Speech at the Second International Public Management Forum*, 18 December 2000, published in *Revue du Trésor*, No 3-4, March-April 2001.

The role of the accountant has evolved in the meantime. Accounting data are now increasingly produced automatically by the Système d’information financière de l’État [Government Financial Information System] (SIFE), or in other cases directly by authorising officer services.

Accounting service control functions have accordingly become stronger in terms both of workload and complexity. With accountants being directly responsible for bookkeeping, their departments have had to acquire new know-how: examination of the recording of complex transactions in the accounts, hierarchical expenditure control, risk analysis, etc. In addition, the recruitment of budget control and ministry accounting services has developed. In some ministries, a new role has emerged for Ministerial Budget and Accounting Control Officers (CBCMs): to advise and accompany managers in taking decisions on the basis of information available in SIFE.

The synergies arising between managers and accountants have allowed accountants to be replaced within the ministerial environment. They have played a key role in reinforcing risk monitoring and implementing internal control. They have also promoted certain organisational reforms, such as the creation of invoicing departments.

2 - Process adaptation

Involving managers in bookkeeping means that accounting and budget processes have had to be rethought in order to design and set parameters for the information systems these processes share. The establishment of government general accounting thus requires personnel working in the government finance function to formalise and increasingly document information and decision-making channels.

In ministry management services, the applicable procedures, the attributes of personnel or the means of first level internal control have been specified on the initiative of financial affairs directors, with the support of internal auditors or CBCMs where applicable. Over and above daily management procedures, inventory transactions have been formalised and described in relation to military stocks, for example, helping to reinforce or to introduce monitoring. The formalisation of certain processes has facilitated the involvement of the internal auditor with a view to identifying the degree of risk control, and the involvement of the authorising officer responsible for attesting that the financial statements are free from material misstatements.

The re-engineering of state financial processes has not been completed. It is ongoing thanks to feedback from the introduction of Chorus, the regrouping of shared service centres (SSC) or the generalisation of invoicing services (SFACT). This work should be continued in constantly seeking to ensure that procedures are more effective, due in particular to their dematerialisation.

3 - The modernisation of IT tools

A shared information system was required to allow management and accounting services to develop government general accounting. Rather than developing existing tools, the administration chose to introduce a new technical infrastructure (based on SAP software), allowing the integrated processing of budget and accounting data using the same chart of accounts.

As a support for budget and general accounting, SIFE provides an overview of expenditure, revenue, costs and returns as well as the rights and obligations deriving from the assets. The stakeholders heard by the Cour expressed broad support for this mechanism.

Several CBCMs indicated that the introduction of general accounting in Chorus has been reflected in a reduction in the number of entries requiring manual recording, and more generally in a reduction in repetitive tasks, such as converting the opening balance sheet from one financial year to the next. This has led to a reorientation of the role of accounting personnel towards higher value-added activities: calibration of withdrawals from accounting applications, control of the reliability of accounts, correction of the allocation of certain entries, support for management services in the form of alerts, or training in particular.

Adapting SIFE to general accounting has also helped to simplify management with respect, for example, to recording services rendered, carrying out inventory transactions or abandoning certain subsidiary accounts previously kept in specific IT tools or in office files. The modernisation of IT tools supporting government general accounting has also facilitated the control ensured by budget control and ministry accounting services, with respect to hierarchical expenditure control or significant anomaly detection for instance.

4 - A restructured administrative organisation

The introduction of government general accounting arose out of a broader movement to modernise the government finance function, which is reflected in its administrative organisation.

The introduction of government general accounting gave rise to new structures, including the accounting standard-setter from 2002, the Directorate-General of Public Finances (DGFiP) Government Accounting Service (SCE) from 2004, the Government Financial Information Systems Agency (AIFE) in 2005 or CBCMs, who have become widespread since 1 January 2007.

Subsequently, the creation of SSC or SFACT spread throughout the administration, while the Decree of 7 November 2012 on public budget and accounting management (GBCP) enshrined the role of the ministerial finance function manager (RFFiM), which is usually devolved to permanent secretaries of ministries.

5 - Accelerated roll-out of risk management mechanism

Risk management seeks to ensure that the directors of an organisation maintain control of its activity in all circumstances. Used for many years in large businesses, this process has spread very gradually throughout government in the broader context of finance function modernisation since the early 2000s. Risk management tools have been adopted widely since then, particularly internal control and internal auditing, the use of which had previously been confined to a limited number of services.

Risk management effectiveness has major consequences for the reliability of accounting records and the opinion formed by the auditor. It has therefore been an essential feature in establishing general accounting.

The requirement to adopt general accounting has thus contributed to a significant acceleration in the spread of a risk management culture in government departments. This is one of the most visible effects of the introduction of general accounting on the government finance function.

In the course of its survey and its work as auditor, the Cour has noted that internal auditing has become more frequent since the State adopted general accounting. It has also shown that several ministerial or interministerial inspectorates have strengthened their capacity to act in accounting matters, either through training or by recruiting external experts. Similarly, several CBCMs indicated that they have strengthened their teams responsible for carrying out or monitoring financial audits.

The Cour has taken two complimentary lessons from the increased importance of risk management which accompanied the introduction of general accounting:

- the spread of risk management culture has not been confined to accounting alone but has gradually filtered into budgeting and operational management more broadly;
- the increased importance of risk management represents a transition from an exhaustive and undifferentiated administrative control model which, due to the number and variety of financial transactions, has gradually become unsustainable to a more effective and, in principle, less labour intensive control proportionate to risks and exposure.

6 - The positive effects of the requirement to certify general accounting

The requirement to certify general accounting based on the model of the company auditor was one of the principal innovations introduced by the LOLF. Members of Parliament paid particular attention to this during the work preparatory to the adoption and subsequent implementation of the Constitutional Bylaw.

General accounting certification has allowed Members of Parliament, citizens, investors and other public finance observers to form an opinion on the reliability of the financial information provided to them which justifies their confidence in its sincerity. By publishing the annual statement certifying government accounts, it has helped to clarify progress made by the State in terms of the reliability of accounting information and the areas in which such information can be improved. At international level, it has contributed to the credibility of France in the Eurozone and in the European Union as a whole, where it is one of the countries whose accrual accounting is certified[21] and the accounting maturity of which, measured according to the degree of conformity to IPSAS standards, is regarded as high both for government and for the territorial authorities and social security services (see the appended "International comparisons").

Within authorities, the requirement for certification has had a positive impact on governance. The auditor's reporting on certain shortcomings (management of sovereign income, monitoring of Ministry of Defence assets, inventory and assessment of the road network, for example) has thus helped to ensure that decision-makers deploy the resources needed to lessen their impact.

In general, the requirement to certify the accounts has led managers to make a sustained effort to ensure the reliability of accounting and financial information. This discipline has played a key role in developing government accounting standards, to which the accounting standard setter, the producer of the accounts and the certifier have each contributed in their particular area.

7 - Governance stimulated in some cases

The fact that the State has established a general accounting system has had and continues to have beneficial effects on the management of ministries, notably by clarifying financial issues which are not covered by budget instruments, either totally or in part: fixed assets to carry out activities, costs not immediately payable resulting from legal commitments made, financial risks to probable realisation.

[21] The requirement to certify government accounts also exists in countries outside the euro area, notably the United States, Canada, Australia, New Zealand and the United Kingdom.

Since they are aware of the value of the assets entrusted to them, managers have tended to manage their purchases and fixed assets more effectively by ensuring, for example, that they limit investments of little use and dispose of redundant assets. Asset maintenance and renewal expenditure has been scheduled on the basis of a documented diagnosis of the state of their assets. The good practices brought to the knowledge of the Cour concern categories of assets as diverse as immovable property, financial holdings, vehicle fleets, software and concessions. Thus the creation of the government procurement department in 2009 helped to define interministerial procurement and organisational strategies in this area.

In parallel, the monitoring of legal commitments made and financial risks incurred has led managers to anticipate certain future expenditure more effectively and to act prudently to moderate its effect. The recording in the balance sheet of provisions for risks linked to EU litigation has had positive effects, with ministries being more inclined to take action to correct their situation when they have understood the extent of the financial risks involved, particularly in terms of budgeting. Similarly, the assessment of default interest in the event of late payment has caused certain managers in the Ministry of Defence, for example, to use tracking tools to ensure that suppliers are paid within the regulatory time limits.

C - Benefits for the public domain as a whole

Over and above its contribution to the transparency of the government's financial position and the organisation of its finance function, the introduction of general accounting has had a spillover effect on the reliability of other government accounts and the accounts of other government units.

1 - Favourable effects on other accounting systems

Far from existing independently of each other, there are close links between different government accounting systems.

The introduction of general accounting has had positive effects on budget accounting and on government accounts in the national accounting system.

a) Effects on budget accounting

In relation to procedures, by application of Article 54 of the GBCP Decree, the Budget Directorate published a collection of budget rules with a form and content drawn from documentation compiled to prepare general accounting. Building on the implementation of internal accounting control, the notion of internal control is also gradually coming to the fore in the budget area.

Beyond this, a number of stakeholders heard by the Cour said that general accounting had helped to improve the budget monitoring of certain mechanisms or provisions, such as the Future Investment Programme (PIA).

Throughout the financial year, accruals, other non-financial debts and prepaid expenditures are useful indicators, particularly of short-term fiscal sustainability. An excessive increase in accruals, for example, may suggest the need to clear outstanding invoices, as was the case for legal costs in 2012.

General accounting directly encourages budget programming. Accrual accounting of the allowance for disabled adults thus made it possible to enhance the foreseeability of the associated budget expenditure. Similarly, the systematic identification and recording of potential obligations improved the monitoring of the appropriations of Programme 114 – Government guarantees. Provisions for tax disputes, meanwhile, shed light on risks to the receipt of sovereign income.

b) Effects on government accounts in the national accounting system

Contrary to the accounts of other government units[22], non-financial government accounts are mainly drawn up on the basis of fiscal data, particularly restatements of budget accounting in disbursement appropriations made by INSEE. The balance for the financial year within the meaning of the Maastricht Treaty is thus calculated on the basis of budget accounting rather than general accounting.

According to the national accounts authorities, this is due to a variety of factors, including publication of the GGA when it is too late to contribute to notification to the European authorities[23] of the provisional accounts of government units, frequent changes in general accounting rules which are not compatible with methods for amending national accounting rules, failure to issue corrections beyond the two previous financial years and differences in standards governing the charging of sovereign income to the financial year, for example[24].

However, certain general accounting data already contribute to the drawing up of government accounts in the national accounting system:

- the Banque de France uses the assessment of financial holdings and other financial fixed assets to draw up government financial accounts;
- finance costs, premiums and discounts on Treasury bond issues[25], accrued interest and non-financial debt liabilities facilitate the monitoring of the aggregate Maastricht debt;

[22] In national accounting, the non-financial accounts of social security bodies or territorial authorities are drawn up on an accrual basis.
[23] Notification of general government provisional accounts is given on 1 April.
[24] National accounts thus record the amounts of corporation tax paid by businesses in the current financial year, while general accounts record the tax owed on profits from previous financial years, according to the amounts detailed when tax returns are submitted.
[25] Premiums and discounts are reported under prepayments and accrued income in the assets and in the liabilities of the government balance sheet.

the recording of probable or possible obligations in the form of provisions or off-balance sheet commitments respectively enhances the monitoring of “standard guarantees” or “contingent liabilities”.

c) Cost analysis accounting made possible

Falling within the LOLF following the decision to discard full cost budgeting and cost accounting, cost analysis accounting (CAC) seeks “to analyse the costs of different actions undertaken in connection with programmes”.

Recorded since 2013 in Chorus as government budget and general accounting, CAC helps to enhance budget documentation submitted to Parliament when the Budget Bill is presented, after voting on the initial Budget Act, or on submission of the Budget Review Bill. It involves breaking down the direct or indirect cost of cross-cutting functions between programmes under which the government budget is implemented.

Between 2006 and 2014, government general accounting allowed CAC presented in annual performance reports to be reported. Thanks to links and analytical keys, each budget programme and each action are allocated a share of the charges calculated in general accounting[26] so that full costs per programme can be established. This mechanism complemented the budget reallocation of credits from “supporting” programmes and actions.

From 2015, noting that CAC did not fully meet the legislature’s expectations, the Budget Directorate and the DGFiP decided to simplify the means for establishing such accounting by limiting its reporting to the monitoring of the direct costs arising out of general accounting, the core challenges.

[26] Allocations to depreciation and provisions, accruals, etc.

2 - A spillover effect on other public bodies

The implementation by the State of general accounting as a complement to budget accounting has helped to bring its financial position closer to that of other government units that have used accrual accounting for many years.

The implementation of government general accounting has promoted transparency, illustrated in particular by the creation of a data centre for national public institutions. Reciprocal claims between the State and its operators became easier to recognise, making it possible to counter dormant cash balances while protecting operators against excessive deductions from cash reserves. The quality of management dialogue and the setting of subsidies for public service charges were improved with respect to financial relations between the universities and the Ministry of Higher Education and Research, for example.

More broadly, the implementation of government general accounting has helped to clarify financial relations between the State and social security bodies or certain territorial authorities. The general accounting certification requirement was also imposed on other government units, such as mandatory social security schemes and certain public administrative or health institutions, and was sanctioned by the constitutional amendment of 23 July 2008[27]. This helped to focus on internal control, internal auditing, anti-fraud measures and the reliability of inventory transactions, particularly in terms of assessment.

Similarly, EU Directive 2011/85/EU, which came into force on 13 December 2011, made independent auditing of the accounting systems of public administration subsectors mandatory. The preamble to this Directive stipulates that “Complete and reliable public accounting practices for all sub-sectors of general government (…) are a precondition for the production of high-quality statistics that are comparable across Member States”.

[27] By application of Article L. 132-6 of the Financial Jurisdictions Code, moreover, the Cour recognises the quality of government accounts which it does not certify itself.

II - Ongoing limitations for management

Ten years after coming into force, the process of introducing government general accounting remains particularly onerous and involves significant resources. The effort made to establish such accounting contrasts sharply with the use made of it: to date, general accounting still has no more than a limited impact on governance practices.

A - A process of establishment relying heavily on government services

The process of establishing government general accounting involves significant resources, both in terms of accounting services and the services of authorising officers. Public-sector managers, to whom the reform has given a new role of "producers of accounting data", face recurring difficulties that have not been entirely resolved by support from ministerial or central accountants.

1 - A significant effort by government units

To assess the scale of resources committed to establishing government general accounting, the Cour interviewed 11 permanent secretaries of ministries, 11 CBCMs and the representatives of seven other bodies[28], asking them to estimate the number of officials involved in general accounting, the corresponding effort in full-time equivalents (FTE), the resources deployed for training and the associated costs disclosed.

Without overlooking the methodological limits of this inventory, the Cour believes it can shed light on the effort granted by the administration to the use of government general accounting.

[28] The Budget Directorate, the Directorate-General for Public Finance, the Directorate-General of the Treasury, Agence France Trésor (AFT), the Government Financial Information Systems Agency (AIFE), the Public Sector Accounting Standards Council (CNOCP) and the Cour des Comptes unit responsible for certifying government accounts.

The responses received show that over 8 000 officials participate in drawing up government accounts on a full- or part-time basis, mainly in the services of the principal authorising officers, i.e. the ministries. The State devotes 2 700 full-time equivalents (FTE) to drawing up and certifying its general accounts, which annually record some 125 million transactions over 2 800 accounts[29].

The effort the administration devotes to government general accounting corresponds only in part to additional staff compared to the situation prior to 2006. General accounting has usually been entrusted to officials who previously carried out other budget and financial tasks. The administration was not in a position to provide the Cour with a full estimate of the new human resources dedicated to this task.

Government general accounting, budget accounting and government accounts in the national accounting system are established on the basis of transactions recorded in a single financial chain, though it is not possible systematically to distinguish the associated costs. The Cour survey did not provide for a complete inventory of the related costs net of expenses of personnel involved in producing government accounts.

However, based on an average gross salary[30] of €5 988 per month, including employer charges[31], general accounting would represent a personnel cost of €162 million for the 2014 financial year, or 0.06% of net sovereign income. While recognising that it does not record the effort made as a whole, this amount is of an order of magnitude comparable to that observed in large businesses[32].

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[29] By way of comparison, in the United States and Canada 29% of businesses whose turnover exceeds $5 billion manage less than 1 000 accounts in their trial balance, while for 17% of these the number of accounts exceeds 10 000. Cf. *Financial Executives Research Foundation*, in co-operation with Robert Half, Benchmarking the accounting & finance function, 2015.

[30] Cf. Ministry of Finance and Public Accounts, Report on the state of the civil service and remuneration appended to the Budget Bill for 2015, October 2014.

[31] On the basis of management charges equivalent to 90.35% of gross processing.

[32] In the United States and Canada, expenditure charged to finance functions in businesses represents between 0.75% and 3.0% of turnover when turnover exceeds $5 billion. See Financial Executives Research Foundation, in co-operation with Robert Half, Benchmarking the accounting & finance function, 2015.

2 - Recurring difficulties raised by managers

Linking authorising officers to general accounting has imposed new constraints on their services which they have been unable to adapt to fully. While it is generally accepted that the IT tools made available to them are adequate, the complexity of transactions to be carried out and lack of personnel or skills have frequently been put forward as obstacles by the authorising officers interviewed by the Cour. The survey also shows that considerable numbers of authorising officers perceive general accounting to be an additional constraint imposed on their activity for which they cannot always foresee measurable recompense.

a) IT tools generally regarded as suitable

The general view is that the IT tools used to introduce government general accounting are suitable. The criticisms made, relating to the rigidity of Chorus, for example, or the lack of clarity in the data it produces, do not appear to be critical, even if they may initially unnerve some officials, particularly those who are not familiar with accounting concepts or the workings of integrated management software (IMS). Whatever the case, officials appear to need a year’s practice to understand the tools they are required to use, both in authorising officer services or accounting services.

b) An activity considered to be too complex

Contrary to CBCMs, permanent secretaries of ministries see government general accounting as an increasingly complex activity. Over and above the rigidity and constraints of Chorus, the personnel involved point to the entry into force of new accounting standards, the growing demands arising out of the account certification process and the refinement of instructions on the recording of certain classes of assets in the accounts.

c) Training: a major challenge

A grasp of IT concepts is essential for correctly capturing financial data, verifying their validity and ensuring the reliability of their posting in the accounts. The Cour's investigations on this point raise a worrying observation: despite the effort made by CBCMs, the DGFiP and the AIFE, 10 of the 11 permanent secretaries of ministries interviewed by the Cour reject the assertion that the officials taking part in introducing accrual accounting have had sufficient training.

d) A duty often seen as an additional burden with no apparent recompense

In addition to the obstacles arising in using IT tools, the acceptance of accounting requirements, the recruitment of teams or the training of officials, a major difficulty for certification service directors is to motivate their staff to play an active role in general accounting. Few managers realised that they had become an integral part of a global accounting chain, the reliability of which depends on their own commitment to this process.

Government general accounting is therefore seen by many of the officials concerned, and even in some cases by their direct management teams, as a barrier if not a burden imposed by the legislature and controlled by the Cour des Comptes through the certification process. This impression is fuelled in particular by the fact that general accounting information, which managers help to ensure the reliability of, is not sufficient justification for obtaining additional budget resources when a need arises for them.

3 - Inadequate support for management services

In response to the difficulties management services face in government general accounting, accounting professionals – ministerial or regional public finance directorates (DDFiP/DRFiP), CBCMs, the DGFiP central services and certification team – have introduced a variety of support measures: transmission of instructions and reference documents, support for accounting quality units (CQCs), sharing of accounting summaries, CBCM annual reports, audit observations or intermediate and final mission reports.

The administrators the Cour approached generally believe that the support measures they are provided with help to facilitate the general accounting transactions they are responsible for. They also indicated that such measures could be improved in several respects. Several permanent secretaries of ministries referred to the difficulty their officials face in digesting the copious documentation provided by the DGFiP. Despite progress made with respect to clarity and training, they believe the documentation is still too technical for officials who lack an "accounting culture".

4 - Persistent audit qualifications despite the effort made

The effort made by the administration has led to a clear reduction in the number and occurrence of qualifications formulated by the government accounts auditor. Between 2006 and 2014, 13 qualifications were withdrawn, some of which referred to major uncertainties regarding the reliability of financial statements. However, if the administration does not maintain a significant investment, it will not be possible to withdraw the five qualifications outstanding on closure of the 2014 financial year. These represent the core difficulties faced by the accounts producer in government general accounting.

B - Limited use for management and budgeting

According to its promoters, government general accounting was intended to bring governance procedures together in the form of best practices. By identifying the completeness of the financial transactions to which the State is a party and systematically bringing together the income and expenditure associated to the legal commitments on which they are based, the aim was to enhance governance by clarifying decisions and bringing about fiscal savings.

To date, however, the introduction of government general accounting has not led to substantial developments in management practices.

1 - General accounting summaries rarely sought by managers

While excluding the case of the Ministry of Defence[33], requests for data summaries from government general accounting are not very common. The few examples identified by the Cour concern confirmation that the service offered in departments responsible for economic affairs and the budget actually took place, the monitoring of off-balance sheet commitments and requests for summaries addressed to France Domaine regarding immovable assets made available to operators.

Most interviewees questioned by the Cour said that they were unable to cite any examples of the use of asset data for management purposes. Similarly, occasional or recurring transmissions of general accounting data by CBCMs to the authorisation services generally remain unanswered.

[33] The Ministry of Defence (MINDEF) is not a typical ministry because the design of SIFE means that it has its own “company” in Chorus. Applications by MINDEF managers for general accounting data are therefore addressed directly to the AIFE.

2 - Barriers to the analytical use of general accounting data

Article 69 of the GBCP Decree stipulates that each ministry must appoint a ministerial finance function manager (RFFiM). This individual is responsible for cost accounting in particular, based on the general accounting data provided for in Article 59 of the Decree.

In practice, however, the use of general accounting data to enhance management does not appear to be applied in all ministries. This is due to a multitude of barriers, including the difficulty managers experience in gaining access to the relevant data, the quality and ergonomics of the summaries provided, the existence of extra-budget or supplementary accounting monitoring tools or the place of the management control function within government.

a) The openness, quality and ergonomics of summaries made available to managers

The initial choices for organising Chorus – which were intended to take the existing organisation of the DGFiP into account – do not currently allow departmental managers to access the information that concerns them independently. To do this, they must systematically call on the accountants, either the CBCMs in central government or the DGFiP accounting network in decentralised offices.

This situation, a major shortcoming, is detrimental on several counts. The central accounting level, i.e. the CBCM, does not necessarily have a complete view of the activity of local accountants and is not in a position to respond to all requests made by authorising officers. Since these officers do not have access to the data they help to provide information on, they cannot play a full part in ensuring their reliability. From their perspective, the investment required for general accounting is not compensated for by access to relevant management indicators.

b) Managers slow to adapt to management based on financial indicators

The actual or assumed shortcomings in the provision of government general accounting data is even more detrimental to their use by public-sector managers when ever-increasing numbers of performance indicators are available to them. More than in the past, the sometimes contradictory indicators received must be compiled, restated, analysed and prioritised. This governance approach represents a structural development that managers, supported by accounting professionals, are gradually familiarising themselves with, though this process is far from complete. Basic accounting concepts continue to be largely overlooked in day-to-day management of services, and general accounting continues to be seen as an accounting tool for external reporting purposes rather than to improve internal management procedures.

3 - A modest contribution to budgeting

The rights and obligations identified by the State in general accounting continue to have only a limited influence on budgeting procedures.

a) Insufficiently reliable data which is available too late

In view of the time limits for taking closing inventories and closing and certifying the accounts, government accounts for financial year N are not available before mid-April N+1, which is too late for them to contribute to the initial programming of appropriations adopted by Parliament at the end of the preceding year under the Budget Acts for financial year N+1. The clarification they may provide for preparing the Budget Bills for financial year N+2 is meanwhile limited, unless it is assumed that the results can be just as useful over the following six to eight months.

Beyond scheduling challenges, the reliability of certain government general accounting indicators does not appear to be sufficient to ensure that the level of future expenditure is more objective. The reliability of accruals and provisions for charges thus depends on whether unpaid invoices are included correctly and completely in the accounts at year-end. This is not systematically the case, however, because invoicing services (SFACT) are not commonplace and because variations may arise between the creation of a legal obligation and the legal or accounting commitment of the associated expenditure.

b) Uncertainties of budget provision for contingencies and charges

Several aggregates recorded in the government balance sheet or off-balance sheet may imply contingencies and charges for the State at year-end: provisions for charges, provisions for risks, off-balance sheet commitments. The information recorded in general accounting, however, does not translate on a one-to-one basis in budget accounting. Thus, if not recorded in the accounts according to a repayment schedule, provisions for charges, which are often multiannual in nature, must be restated to enhance annual budget programming. Off-balance sheet commitments, reflecting potential legal commitments which are usually regarded as unlikely, are subject to similar difficulties in the case of budgeting for the expenditure they may entail. In addition, in certain cases, the magnitude of the risk borne by the State in this respect cannot be assessed.

c) A tool unsuited to the constraints of the current budget context

By providing the State with general accrual accounting, the promoters of the LOLF primarily sought to enhance budget sincerity. The investigations carried out by the Cour, however, show that, while general accounting has helped to improve the reliability of budget accounting, its influence on budget processes is still very limited. The same applies in other countries that use accrual accounting[34].

General accounting has not become a support for permanent dialogue between the legislature and the executive. Contrary to its promoters' hopes, it has not yet helped to establish the adoption of the Budget Review Act as a major event on the annual public finance calendar, and it has not become the framework for talks between the managing ministries and the finance units, particularly the Budget Directorate.

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[34] See *Association of Chartered Certified Accountants*, Consolidated government accounts: How are they used?, June 2015.

C - Insufficient acceptance outside the administration

In order to assess the extent to which general accounting has contributed to the transparency of government finances, the Cour successively examined the use made of this system of accounting by government, Parliament, government creditors and public finance observers.

1 - Lack of government reporting on financial statements

Driven essentially by the ministries responsible for economic affairs and the budget, government reporting on its general accounting has focused on the number of qualifications raised by the auditor rather than on the image of the government's financial position projected by its financial statements or their development.

a) Reporting basically ensured by the ministries responsible for economic affairs and the budget

Government reporting on government general accounting is ensured largely by ministers responsible for economic affairs and the budget, particularly the public-sector accounts minister. The Cour did not identify any examples of public reporting from a managing minister on indicators arising out of government general accounting within their remit. Several permanent secretaries of ministries informed the Cour that general accounting or its indicators were only rarely discussed with cabinet ministers.

This shows that ministers, as the principal authorising officers, have failed to recognise the obligations that government general accounting imposes on them. General accounting is seen in many managing ministries as a challenge that lies outside the internal management function that CBCMs and senior finance unit officials would be responsible for. The "holistic" approach adopted by the accounts producer has helped to promote that view, and failure to provide systematic accounting information at ministerial level, which is therefore the responsibility of the manager, raises barriers to the political authority's acceptance of general accounting.

b) Reporting focusing mainly on the number of qualifications raised by the auditor

Indicators arising out of government general accounting are rarely emphasised in public debate, due particularly to the fact that they are not sufficiently developed by the minister responsible for public-sector accounts. Government reporting on general accounting on presentation of the Budget Bill lays too much stress on the number of qualifications formulated by the auditor of the financial statements rather than on the image of the financial position such statements project.

This arises, on the one hand, because of the place of budget and national accounting in the description given to the public of the government's financial position, to which general accounting contributes only marginally or indirectly for the various reasons that will be set out below. It arises, on the other hand, because the public-sector accounts minister tends to prioritise forward-looking information on the preparation and adoption of the budget rather than a retrospective clarification of its implementation which is not necessarily consistent with the forecasts or provisions adopted.

2 - Data little used by Members of Parliament

The introduction of government general accounting is an obligation that was established by Parliament when the LOLF was voted on. Nevertheless, even though Parliament required it to be kept and even though it bears "significant responsibility in guiding the modernisation of the State[35], Parliament's acceptance of this new instrument, which it makes very little use of, has been unenthusiastic.

[35] "Accounting should be at the service of governance, *i.e.* (…) at the service of Parliament, which has a significant responsibility in guiding the modernisation of government, and at the service of managers, who bear the onerous task of leading it". See Jean-Jacques Viala, Alain Turc, René-Marc Viala, Modernisation of French public management: can the theory of agency provide assistance in analysing the implementation of the LOLF?, March 2007.

Despite a number of encouraging signs, the general view of the government units interviewed by the Cour is that government general accounting has not become a genuine tool for dialogue between the executive and the legislature. Several permanent secretaries of ministries indicated that requests received from Parliament continued to be geared heavily towards the concepts prevailing prior to the entry into force of the LOLF[36].

The parliamentary questionnaires sent to government units only rarely focus on government general accounting, while the annual observations forwarded by CBCMs to Parliament report few responses from parliamentary finance committees. The work done to equip Parliament with a specific application for consulting Chorus has yet to come to fruition.

The services attached to parliamentary finance committees do not dispute that Parliament makes very little use of government general accounting in carrying out its budget activity. There are many barriers to the adoption of such accounting by elected officials and the administrative services of assemblies. These barriers concern the issues set out below in particular.

The means for implementing general accounting

- The presentation and appeal of documentation describing government general accounting continue to be inadequate for Members of Parliament to accept fully. Elected officials prefer to read the “four-page” summary and presentation report, even though they believe these documents lack depth.
- The complexity of the rules for establishing government general accounting may discourage its use. The interpretation of determinants of multiannual variations in accounting positions calls for caution in so far as it may give rise to changes in the rules.

[36] For example, budgeting by army or by Ministry of Defence sector of expenditure.

- The introduction of government general accounting has not been accompanied by support measures for its principal external users, contrary to what has occurred in other countries such as the United States.

The work of parliamentary finance committees

- Members of Parliament are required to oversee the authorisation or implementation of appropriations in a particular budget mission within the nomenclature of government expenditure by purpose, i.e. "mission-programme-action" (MPA). They do not necessarily have a direct interest in commenting on accounting aggregates established by the State as a single legal entity.
- Submission by the Cour des Comptes of the statement certifying the government accounts accompanies the report on the government budget and notes analysing budget implementation by mission. In this connection, Members of Parliament tend to prefer documents drawn up by the Cour on the basis of budget documentation when the GGA is not always available.
- Members of Parliament are naturally inclined to examine financial challenges which are likely to have short-term budget consequences, particularly when they reflect an international or national political challenge. By contrast, they have little interest in accounting entries which are not immediately translated into cash, e.g. provisions for risks.

The difficulties elected officials have in using financial statements

- Not all elected officials are necessarily aware of government general accounting, and those who know it exists do not always consider its potential for their activity. Senior officials working for parliamentary finance committees register few queries relating to the interpretation of the GGA.
- The establishment of links between government budget accounting and general accounting requires a command of the rules for establishing these systems. Even if certain elected officials have financial skills and many have dealt with accrual accounting data during their time as local councillors, they do not all have a mastery of the different public accounting systems.

- The emphasis laid by government reporting on the number of qualifications formulated by the auditor who certifies government financial statements rather than on the image of the government's financial position as evidenced by such statements means that certain elected officials underestimate the capacity of general accounting to provide useful indicators of the situation of the State and of public finances.

3 - A useful though not essential component of government communication with its creditors

Investors in government debt securities have broad quantitative financial information requirements which the notes to the GGA help to meet, supplementing AFT publications. Investors focus in particular on liabilities identified in general accounting, primarily the financial debt, and are attentive to information regarding off-balance sheet commitments reported in the notes to the GGA. Assets, by contrast, are used less frequently.

The AFT asserts that the recording and publication of government accounts supports investors in connection with what is regarded as a recognised strength in France: the quality and rigour of its financial authorities. They do not necessarily represent a comparative advantage for the State in its issuing strategy, however. The data reported in general accounting, which by definition concern the past, actually attract investors less than forward-looking documents such as the Budget Bill, the stability programmes or the economic forecasts of major national or international economic research institutes.

4 - An accounting system largely ignored by rating agencies

Unlike a received idea, the methodology used by rating agencies to assess public-sector credit risks differs considerably from that used to assess private-sector risks. Thus, while market sector financial analysts act on the basis of accounting data published in notes to the financial statements of large groups, "sovereign" or "country" analysts are more inclined to make use of economic indicators – balance of payments, inflation, GDP growth forecasts – or international comparisons.

By way of illustration, the methodology adopted by a large rating agency approached by the Cour does not require the systematic use of general accounting data presented in the notes to the GGA. In their assessment, the analysts do not accept the value of not very liquid assets such as property[37] or intangible assets. In liabilities, they do not make use of the amount or development of provisions recorded in the accounts by the State. Off-balance sheet, they do not rely on forecasts published on the sustainability of pension liabilities in the notes to the GGA. The analysts interviewed by the Cour state that general accounting indicators are not sufficiently comparable to information published by other countries.

D - A type of accounting that has yet to find its place

Ten years after its inception, general accounting has not gained a strong foothold in the government accounting system and has failed to assert itself as the management and performance tool of choice its promoters believed it would be. This is due to developments in budget and national accounting in the meantime, but also to the various comparative handicaps that have worked against general accounting.

1 - Budget accounting still has a leading position in management

Budget accounting, a basic government management tool, provides a structure within which to draw up, present and vote on the budget and monitor its implementation. Public-sector managers, whose work largely entails obtaining and subsequently consuming budget resources, therefore pay constant attention to budget accounting.

[37] Even though accounting standards require government to assess them at market value.

The central position of budget accounting in the management process has been called into question less by the introduction of general accounting because the provisions of the LOLF have helped to enhance its content, due especially to the introduction of commitment accounting and the abandoning of the additional day.

The predominance of budget accounting in management has helped to overshadow the contributions of general accounting. Presented when the Budget Bill is submitted, i.e. in parallel with an abundance of budget indicators provided by the Government, the Cour des Comptes and the parliamentary finance committees, the attention paid to the notes to the GGA in the public debate falls short of the information they contain and the challenges they present.

2 - Increase in the audience of national accounting

While general accounting was developing, national accounting experienced an unprecedented increase in its audience. The balance of government units in national accounting thus became one of the principal implications of the Finance Acts[38]. Eurostat monitored this development while toughening the disclosure obligations national accountants were subject to.

National accounting is the most comparable accounting system at international level because the methods for its preparation are harmonised within the European Union and even on a national basis, since comparisons between government units can be drawn in national accounting. National accounting furthermore opens the way for relevant comparisons in time, thanks to long series published according to constant methodologies and boundaries, and by means of restatements in the case of developments in legislation where applicable.

[38] Article 7 of the Constitutional Bylaw of 17 December 2012 on Public Finance Planning and Governance establishes the obligation to present this balance in the introductory article to the Finance Acts.

3 - General accounting affected by certain limits

There are a number of reasons why general accounting has not yet taken on the role expected of it by the legislature within the government accounting system.

a) The limits of comparability between the situation of the State and the situation of businesses

According to Article 30 of the LOLF, government general accounting differs from business accounting due only to the "specific characteristics of its action". Irrespective of its aims, however, the State is in an objectively very different situation: its net position or the balance of its transactions do not have an economic significance comparable to that of the key management indicators of large businesses. Their very poor level does not automatically mean that the State as a going concern can be called into question. The State is, moreover, different from large businesses because of the comparative degeneration of its management control functions, despite the Budget Directorate's efforts to raise awareness of this notion in the administration. Government general accounting is therefore deprived of a significant proportion of its potential users.

b) Gradual clarity

Government general accounting involves complex concepts[39] which are not always understood in the same way as they are in general business accounting. By contrast, budget accounting by disbursement appropriations proposes simple aggregated indicators based on a rationale of easily represented receipts and disbursements. In addition, certain legislative choices appear to have detracted from the clarity of government general accounting. The valuation of office or residential buildings at market value, for example, means that depreciation is no longer reported, making it more difficult for readers of the accounts to understand their real physical situation and level of use.

[39] Rules of association with the financial year, the dividing line between liabilities and potential obligations, cash disbursements or receipts, etc.

c) Indicators not available in time and focusing exclusively on a retrospective analysis

Like national accounts, general accounts are drawn up only on completion of an inventory and restatement process. It therefore does not provide summaries of permanently updated accounting data such as those provided by budget accounting.

More broadly, government general accounting continues to be a retrospective information tool rather than a forward-looking guidance tool comparable to what budget and national accounting have become. It has not yet developed a strong role in public finance governance, the programming facet of which has consolidated significantly in recent years.

d) A "holistic" approach discouraging the acceptance of the principal authorising officers

The "holistic" approach of government general accounting has led producers of accounts to discard the possibility of preparing financial statements per ministry, followed by their consolidation along the lines of the British model.

While it supported the principle of the unique nature of the State as a legal person and initially simplified its general accounting, this option undermined the principle of the accountability of managers for the accounts that describe their management. Because of the inability of general accounting to report the individual action of the principal authorising officers – the ministers – these officials were not strongly encouraged to participate in drawing them up or disseminating the results to justify the effectiveness of and improve their management.

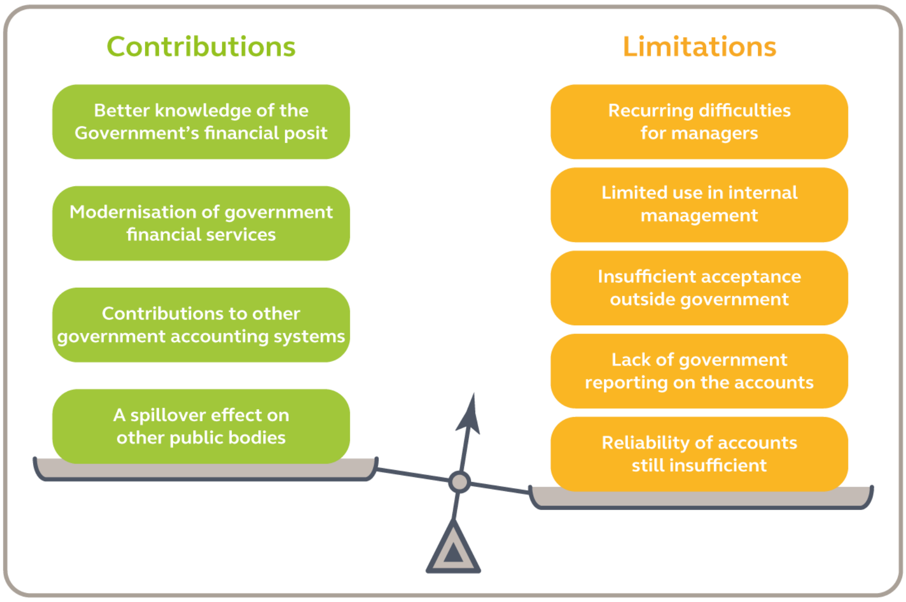
Sector-based information, which was designed to compensate for this lack of acceptance and which presents government accounts by regrouping budget missions, has yet to make a significant contribution. Since it has not been widely publicised, it remains little known and does not provide a relevant picture of the remit of public-sector managers, notably because the sectors defined usually involve several ministries.

e) A tool of little relevance for analysing shared policies

A strong point of general accounting is its ability to provide scope both for a micro and a macro approach to management and to balance sheet and income statement aggregates representing the pooling of identifiable individual transactions. General accounting thus allows government accounts to be analysed in greater detail than in national accounting, for which budget accounting statistical restatements by disbursement appropriations do not provide access to the details of the transactions recorded.

The aggregates available in general accounting, however, report only transactions carried out by the State as a legal person. Because of failure to combine with the accrual accounting of other government units, general accounting does not provide a view of the resources allocated to the implementation of public policies shared between the Government and its operators, social security bodies or territorial authorities. This is particularly detrimental to the ministries responsible for national education, higher education and research, the environment and sustainable development.

Figure 3: A modernised yet little used accounting system



CONCLUSION

Government general accounting has significantly helped to improve awareness of the assets and liabilities concerned and thus to highlight the poor financial position of the State. It has helped to develop synergies between managers and accountants while enhancing their roles and modernising the shared tools made available to them. It has accelerated the reform of organisations, the use of risk analysis in government services and the implementation of new procedures based on common practice in large businesses, particularly accounts certification. It has had positive indirect effects on budget and national accounting and on the accounting of other government units. All in all, general accounting has much to offer, and there is no doubt as to its contribution to the transparency of government finances and to the modernisation of its finance function, including in international comparisons where the quality of government information and financial procedures is acknowledged.

The contribution of general accounting, however, has yet to match the resources the administration has devoted to its introduction. Accounting involves significant resources, particularly in authorising officer departments, and raises many ongoing difficulties: the complexity of transactions, lack of staff, sometimes insufficient training due to failure of teams to engage. There is also room for improvement in the support measures adopted by accounting professionals. More broadly, the attention paid to accounting reform has sometimes overshadowed that paid to the expected results. In addition, several significant qualifications raised by the auditor as to the reliability of the financial statements and the possibility of auditing them have not yet been resolved.

The contribution of general accounting has also failed to live up to the expectations raised by the promoters of the Constitutional Bylaw on Budget Acts (LOLF). General accounting is insufficiently recognised and little used within the government accounting system compared to budget accounting or its accounts in the national accounting system. The perception it gives of the Government's financial position is not valued by the State or analysed by Parliament, nor is it fully understood by government creditors or rating agencies which assess its credit risk.

Since its use is not sufficiently widespread, general accounting has done little to develop administrative management practices. Its contribution to ensuring budget reliability and sincerity, reducing costs and increasing expenditure efficiency falls far short of its potential.

The ability of general accounting to accompany the re-establishment of public-sector accounts is unclear, demonstrating that the transparency of the financial position is not in itself a guarantee that it can be corrected.

Chapter III

How to relaunch the process in order to improve public-sector management

Despite the significant contributions it has made to the transparency of the State's financial position and to modernisation of the government finance function, general accounting has fallen short of the expectations its introduction engendered because it is both burdensome and under-utilised.

Now that this new system has been adopted and is in full swing, with all the inevitable difficulties and limitations that this entails, we must embark upon a new stage that will address its shortcomings and, in so doing, make progress towards achieving the legislator's objectives.

I - Improving the preparation of accounts

The preparation of government general accounts must be made more efficient and more effective. A greater focus needs to be applied to the data producers, who help with government general accounting within authorising services. At the same time, there should be continued reform of the government finance function and upgrades to the government financial information system.

A - Take greater account of managers' needs

The main challenges posed by government general accounting are in authorising services where the data producers involved in accountancy work do not always have the skills required to perform their duties.

1 - Alleviate the undue constraints on authorising officers

Data producers in authorising services who contribute to the preparation of the general accounts have no objection to the principle of bringing government accounting standards into line with those used for business. However, they do question some of the implementation procedures involved.

a) Alignment of accounting rules whose merit is not in dispute

Article 30 of the LOLF provides that "The rules that apply to the government accruals-based general accounting system shall differ from those that apply to businesses only by reason of the specific nature of government action." The aim of that principle is to prevent the State from laying down standards for its own accounts that exempt it from rules that are vital for ensuring that financial statements provide a true and fair view of the Government's position. The wording of that article has had a very strong influence on the content of the Central Government Accounting Standards Manual (RNCE) and continues to help determine the preparation procedures in government general accounting, particularly since it underpins the dialogue between the person producing the accounts and the person auditing them.

In principle, Article 30 of the LOLF is regarded by all stakeholders to be a legal rule whose merits are not in need of review.

b) Implementation procedures criticised by managers

While subscribing to the principle laid down in Article 30 above, several people interviewed by the Cour consider that the process of aligning the preparation procedures in government general accounting with the best business standards should not impose an excessive burden on data-producers in authorising services.

Lamenting the sometimes over-strict interpretation of Article 30, they are of the view that the feasibility of accounting operations and their cost-benefit ratio stand to gain from being given greater weight when accounting standards are drafted. Some of them also call upon the auditor to ensure that he does not require the kind of "full accounting quality" that is unsuited to the realities and needs of public-sector management.

To support their position, they refer to circumstances in which the administration has had to make significant efforts to satisfy a strict application of accounting standards that are broadly in alignment with those that apply to business, and refer to several national accounting standards that are difficult to implement in practice. One such example, the standard on intervention liabilities[40], is based on complex criteria rooted in accounting concepts that are not generally within authorising officers' area of expertise. At the same time, the requirements to survey and assess internally produced software have proved disproportionate, as have the requirements on accounting for time savings accounts (CET). In 2014, two new, highly technical standards on "carbon" concessions and quotas were adopted – reflecting the technical nature of these areas – and prompted concern among some authorising officers.

c) Balancing the interests of internal managers with those of external users

All in all, a number of data producers are of the view that the paramount focus of preparation procedures in government general accounting is on external users' concerns with no tangible added value in terms of internal management, and that this approach risks lowering the morale of officials who are working hard to improve the reliability of the financial statements.

[40] Off-balance sheet commitments, provisions and accruals for cash transfers from the State to third parties, for example building subsidies, housing subsidies, or disabled adults' allowances.

The fact that that view is widespread across authorising services should give all those involved pause for thought about the effects of their individual actions. Indeed, it is crucial that the work to maintain the government general accounts is prioritised appropriately and proportionate to the situation in question, especially in circumstances where:

- significant work to improve the reliability of the accounts has been ongoing since 2006;
- the work done by France to enhance the reliability of its financial information generally would appear to go beyond that done by the chief comparator countries;
- by their own admission, external users of the general accounts do not conduct an in-depth financial analysis of them.

It would therefore appear desirable for the various stakeholders (accounting standards board, ministry managers, accounts producers, auditor) to act in concert to eradicate the accounting niceties that unnecessarily complicate general accounting. Accordingly, it would be appropriate to:

- compare systematically the cost of marginal reporting improvements with their contribution to the reliability of the accounts;
- ensure that the accounting risks are better explained and shared with data producers;
- take care to ensure that the framework and procedures for government general accounting do not change too frequently or too much.

RECOMMENDATION N° 1

Systematically do what is necessary to improve the reliability of the accounts, take greater account of the needs of managers and the constraints they face, ensure that the accounting framework is stable and realistic.

2 - More support for managers

Data producers in the authorising services involved in government general accounting receive support from players in the accountancy world, including ministerial budget and accounting auditors (CBCMs), accounting quality units (CQCs) and the Government Accounting Service (SCE). Although the quality of this support is generally regarded as good, there is nevertheless room for further improvement.

The close support provided by the CBCMs and the CQCs could be increased. While continuing to make their expertise available to departments, they should help to co-ordinate the finance function across authorising services, for example through workshops that provide information, create opportunities to pool experiences or deliver training to officials involved in the general accounting system. Their actions should also focus more on an advisory role during the decision-making process, particularly based on the repayments produced in the Government Financial Information System (SIFE), by ensuring that they supply relevant information within the bounds of their expertise and the accounting aggregates for each ministry's activities.

Data producers experience ongoing difficulties in taking on board the accounting doctrine and paperwork made available to them by the central departments of the Directorate-General of Public Finance (DGFiP). The central departments should take particular care to ensure that the documents they produce are easy to understand. To that end, they should designate specific officials to act as contact persons for each ministry.

RECOMMENDATION N° 2

Encourage co-ordination across the government financial services by designating specific officials within the DGFiP, improving accountancy paperwork and supporting managers in processing computerised accounting data restitutions.

3 - Whenever possible, match budget concepts to accounting concepts

The process of interfacing the (cash-based) budget accounting system with the full accrual-based government general accounting system raises theoretical and practical difficulties that the State has been working hard to address since it adopted accrual accounting.

In view of those difficulties, it does not seem realistic systematically to align the budget accounting system with the general accounting system by adopting full accrual budgeting. Accrual budgeting was specifically ruled out in the pre-voting phase of the LOLF. International comparisons show that its usage is minimal worldwide and that, more often than not, it is viewed with caution by policy makers[41].

However, in some circumstances, it is both feasible and necessary to align the definitions of the budgetary and accounting concepts more closely in order to alleviate the constraints on data producers who help maintain them, all the while complying with the principles laid down in the conceptual framework for the public accounts and the RNCE. Consequently, the concepts of mandatory spending, unavoidable expenditure, deferrals, accruals and liabilities would benefit from greater consistency in order to reduce the discrepancies in definition as between the Budget Directorate and the DGFiP. Additionally, because budget and general accounting do not have a shared definition of investment expenditure, none of the credit appropriations under budget line 5 are regarded as state investment as accounted for in the government general accounting system.

Liabilities, accruals, deferrals

In budget accounting, liabilities refer to commitments that have not yet given rise to payment. In procurement, they relate, for example, to orders placed by a government department with suppliers that are as yet unpaid either because the service/goods ordered have not yet been supplied (in which case, no payment is due) or because the payment deadline has not yet expired.

[41] By contrast, some States use a form of budgeting that combines cash and accruals. They include Austria, Belgium, Denmark, Iceland and Switzerland, which have adopted a procedure based on modified accruals, and Italy and Norway, which employ a modified cash basis procedure.

In the general accounting system, accruals are liabilities where the degree of certainty over certain aspects (maturity and amount) is lower than it is for debts. Nonetheless, more is known about them than about liabilities: in procurement terms, liabilities are services rendered but not yet paid for, for example because no invoice has yet been received.

Comparing liabilities and accruals clarifies future budget expenditure that will become payable once the service/good has been supplied. Changes in accruals can also help managers to anticipate budgetary deferrals year-on-year.

RECOMMENDATION N° 3

Undertake a systematic review of all concepts used in budget and general accounting in order to identify any potential alignment and establish any necessary linkages.

4 - Improve officials' training and boost the attractiveness of careers in finance in authorising services

The perceived inadequacy of training for officials and the low number of people upon whom the reliability of accounting entries rests are general concerns that relate to the government finance function as a whole. The Cour is of the view that it is more vital than ever to invest in training for officials involved in the procedures for the preparation of the government general accounts. To that end, the Cour recommends:

- a survey of the knowledge and expertise currently available within the ministries;
- promotion of training in authorising services;
- development, particularly in association with the IGPDE, of ongoing training programmes to include modules that raise awareness of the concepts of accrual accounting;
- establishment of "advanced" training programmes in certain subjects such as behaviour of book inventories, if necessary with the help of experts from the AIFE, the Cour des Comptes or major audit firms;
- increase in ministerial inspectorates' capacity in the field of accountancy in order to promote greater reliance on internal audits;
- alignment of the initial training programmes delivered by civil service training colleges with the new realities of the government finance function.

RECOMMENDATION N° 4

Develop accounting skills within managerial services by identifying existing expertise, adjusting training programmes and boosting ministerial inspectorates' capacity in the field of accountancy.

Special attention should be paid to the recruitment and attractiveness of careers in the financial services of under-staffed ministries. Additionally, broader recruitment of general accounting specialists, especially accountants, could be encouraged.

B - Modernising the tools available to accountants

In order to improve preparation processes in government general accounting, the State should continue to modernise its finance function, in particular through the roll-out of invoicing services and IT system upgrades.

1 - Complete the roll-out of invoicing services

Since their introduction on a trial basis in 2004, the invoicing services have demonstrated their contribution to modernising the government finance function. By centralising and processing invoices more rapidly, they have helped to increase the reliability of accruals, reduce the time taken by the State to settle invoices and cut the amount of default interest paid by the French authorities. The professionalisation that has been part and parcel of implementing the services has helped to increase the reliability of the government general accounting system.

The benefits associated with the mere existence of invoicing services tends to support their fast-track rollout in both central and decentralised settings, including among operators, as a follow-up to the decisions taken by the Interministerial Government Modernisation Council (CIMAP) of 18 December 2013.

2 - Continue with progress in IT systems

Efficient preparation in government general accounting relies considerably on the performance of the information systems involved. Several steps could enhance their role in achieving the objectives set by the legislator while better meeting the expectations of ministry-based users.

a) Improve the input of accounting entries in Chorus

Since 1 January 2012, Chorus has been the sole application used within SIFE for government general accounting. The full impact of the enterprise resource planning (ERP) application has not yet been felt. The interface between Chorus and several “delivery” applications that forward accounting entries from ministries to the ERP application is in a format that requires it to be processed through many conversion tables. This makes it very difficult to establish a full paper trail for accounting transactions and significantly restricts the scope of the checks performed by the auditor.

Hitherto, only 4 of the 24 delivery applications have been upgraded to an enriched delivery format interface with Chorus based on “event reports” (CRE). Three further applications are scheduled for upgrade to enriched format by end-2016. The interface between the remaining 17 applications and Chorus will be upgraded only as projects are re-written or replaced in line with a schedule that is as yet unspecified.

As a follow-up to the remarks made when auditing the government accounts, the Cour recommends that priority be given to establishing an enriched format for the delivery of accounting entries to Chorus.

More broadly, it is of the view that, having invested significant resources in the procurement of an ERP application, the State should direct a share of its IT investment towards work to identify synergies between this and the other applications used in its financial information system. The latter would gain from being linked to Chorus, for example ministerial applications for managing real estate or human resources information systems.

b) Adjusting the ergonomics of the systems

Several permanent secretaries of ministries and the CBCMs have indicated to the Cour that the ergonomics of the IT system tools available to their officials should be improved. They emphasise in particular the inflexibility of the systems and the lack of clarity in the terms used for accounting data restitutions.

As a follow-up to the work done recently by the Government Financial Information Systems Agency (AIFE), the Cour recommends that a survey of authorising services should be conducted into improvements that could enhance the ergonomics of the systems, and that the changes with the best cost-benefit ratio should be implemented as a matter of priority.

c) Automating some of the output from the government general accounts

Although the government general accounts have been on Chorus for more than three years, the financial statements presented annually in the accounts are still prepared by manually processing data produced by the software package. By its very design, Chorus should be capable of producing financial statements automatically.

Additionally, it should be possible to reduce the preliminary processing involved in preparing government accounts in the national accounting system by drawing on data in the government general accounting system. In order to achieve this, it may be necessary to align the target-based terminology used for state budget expenditure more closely with the function-based public expenditure (COFOG) terms used in the national accounts. Finally, automated enrichment under Chorus could help provide a better picture of accruals.

d) Making more procedures paperless

The order of 9 September 2013 on the conditions for paperless accounts opened the way to greater use of paperless accounting procedures, both in respect of relations between the services involved in procurement, invoicing and accountancy, and the external suppliers of goods or services to the State[42].

Making procedures paperless is likely to encourage efficiency in government general accounting, in particular by dispensing with the need for officials to process paper documents or stack bundles of physical accounts. This is ultimately one of the prime opportunities for savings in how the government finance function operates, particularly in terms of relations between the Government and its suppliers.

To that end, the implementation of the Order of 26 June 2014 on the development of electronic invoicing lays down precise deadlines, including the expected launch in 2017 of Chorus Portail Pro.

RECOMMENDATION N° 5

By 2017, complete the across-the-board introduction of invoicing services and, in the short term, where warranted by the evidence, invest in projects to encourage greater integration, automation and paperless procedures in the preparation of the government accounts.

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[42] The portal Chorus Factures de l’État makes paperless transactions between the State and its suppliers possible, allowing direct receipt of supporting documents with requests for payment.

II - Increase the usage of the general accounting system

The Cour's findings on the very low use made of the government general accounting system by managers within ministries, the Government, parliamentarians and public finance observers justify measures to encourage more systematic use of data, especially balance-sheet data, that have been available since the State began producing financial statements pursuant to Article 30 of the LOLF.

Measures should be taken to increase usage of the government general accounting system by making it available for use in public-sector management, developing the State's procedures for financial communications and actively supporting changes in the accounting system as a whole.

A - Making the general accounting system available for use by government authorities

The formulation of government general accounting required sustained effort on the part of the administration in order to conform to new accounting reliability requirements. Now that the system has become established, it is necessary to ensure that managers reap the benefit, in management terms, of the data that they help to collate.

Several measures could assist in this process.

1 - Allow CBCMs to provide effective support to central authorising officers

Local budget controllers can be encouraged to perform some of their missions in conjunction with senior budget control department (DCB) officials, but local accountants have remained fully independent of central government accountants in ministries. Although intended initially to retain consistency between the sphere of the Paymaster General (TPG) and the responsibilities and status of the Prefect in the regional sphere, the situation was not without its own management difficulties. Only very rarely (especially in the Ministry of Defence) do the CBCMs have a full view of the operations accounted for by local accountants within their ministry.

They are still not able to intervene to broker better relationships between ministerial departments and the accountancy network. In some cases, central accountancy services are even driven to appeal to the authorising officer, via authorising officers in decentralised bodies, in order to effect a change in local accountants' practices.

More broadly, there is a notable mismatch between potential simplification that could be achieved by using government IT systems and the complexity of its financial organisation, especially in decentralised services. In previous work[43] the Cour has noted that full exploitation of Chorus's potential required rationalisation of the accounting framework, a review of some of the technical tradeoffs made during its design and a step-change in the "administrative culture" in the financial sector.

In order to increase the contribution that the government accounts make to improving management, it is necessary to match accountancy boundaries more closely with boundaries of responsibility, in conformity with the spirit of the LOLF and having regard to one key recent achievement, namely the establishment of stable boundaries of responsibility for permanent secretaries of ministries and the CBCMs in recent years.

RECOMMENDATION N° 6

Provide ministerial accountants with full, rapid access to the general accounting data on the decentralised services within their remit and, ultimately, match their field of responsibility more closely with that of managers.

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[43] See Cour des Comptes, *Rapport public annuel 2011*, Volume II, Chorus et les systèmes d'information financière de l'État, pp. 265-294 [Chorus and government financial information systems], *La Documentation Française,* February 2011, 426 p., available at www.ccomptes.fr.

2 - Systematically circulate accounting data restitutions in line with boundaries of responsibility

The tradeoffs made by the LOLF legislator established the State as a single legal entity for the purposes of the general accounting system and de facto ruled out the concept of drawing up ministry-based financial statements in line with the British model. That decision should not, however, stand in the way of circulating accounting data restitutions by boundary of responsibility in order to encourage managers to buy into the data in the government general accounting system and use them effectively.

The matter of systematically making accounting data restitutions available by ministry and by programme, describing the resources and financial statements obtained by public managers within the boundary of their responsibility, is a long-standing concern. Although announced in June 2005, it has not yet been implemented, despite the recommendations of the Cour, which are still relevant.

In order to reinvigorate the intended aim of the LOLF, namely to give managers responsibility, the Cour recommends that CBCMs should systematically circulate data restitutions for significant accounting aggregates. The repayments should relate, in particular, to real estate, non-financial liabilities and charges, at least for each mission and each budgetary programme, and to the boundaries of expertise of each ministerial finance function manager (RFFiM).

RECOMMENDATION N° 7

Conduct a trial involving a group of pilot departments systematically to circulate accounting data restitutions in line with the boundaries of their responsibility.

3 - – Increase the use of cost accounting where justified

The government general accounting system must be the bedrock of a cost accounting system that "shows full and/or incremental costings, direct and indirect fixed and variable costs"[44] for monitoring purposes in areas where its adoption would appear appropriate.

Several projects are in place in various ministries to provide management services with cost indicators. Some of them are based not on data drawn from government general accounting but on information produced by budget accounting or non-accounting information systems.

To overcome this drawback, the AIFE and the DGFiP should ensure that general accounting data available within SIFE are easily accessible to the relevant managers, who will then be able to use them for their analyses, where necessary making the relevant connections with their own auxiliary information systems.

Additionally, in a budgetary environment subject to severe constraints imposed by ministries, the Cour suggests that the AIFE acquire the SAP modules needed to incorporate cost accounting into SIFE, with a view, in particular, to preventing some ministries from embarking on developing or acquiring their own solutions that will ultimately be more costly overall. The AIFE should ensure that the pricing of modules does not deter managers in the ministries from availing themselves of them.

In addition, it has become clear that the structure of government cost accounting requires new regulations to be adopted as a matter of urgency to ensure that the authorities finally have a clear view of the way records should be kept.

Where cost analysis accounting (CAC) has not delivered as expected, the CAC workloads of financial controllers assigned to programme leaders should be lessened so as to enable the controllers to use the indicators available to them under SIFE effectively, especially those indicators produced by cost accounting or government general accounting.

RECOMMENDATION N° 8

Where justified, increase the use of cost accounting in management services and, based on an assessment of the purpose of cost analysis accounting, reassign some or all of the resources allotted to it.

[44] See Cour des Comptes, *Rapport public annuel 2011*, Volume II, Chorus et les systèmes d'information financière de l'État, pp. 265-294, *La Documentation Française*, February 2011, 426 p., available at www.ccomptes.fr, and Article 59 of Decree No 2012-1246 of 7 November 2012 on public-sector budget management and accounting.

4 - Make support services as effective as possible using general accounting

The scope of managerial control and performance improvement is not restricted solely to public policies implemented by ministers, programme leaders or Programme Operating Budget (BOP) leaders. The aim is to deploy managerial control as a performance “pilot scheme” across all support services: budget and finance, human resources management, procurement strategy, real estate, etc.

It would be beneficial for managerial control to draw on the indicators produced by the government general accounting system: if assessed proactively, they could be pivotal to getting the best out of support services, especially where budgeting procedures are concerned.

a) Improving budget procedures

The Cour notes that government general accounting has already had a positive effect on budget procedures, for example, by taking accruals into account in order to identify under-budgeting, following up services rendered, recording provisions for charges or identifying potential obligations that have triggered off-balance-sheet commitments.

These effects could go further and wider as follows:

- the introduction of a shared mechanism to monitor disputes would encourage evaluation of the size of the corresponding provisions while helping to ensure that the associated budgetary risks have been correctly considered during the budget process;
- in order to establish internal control in budget matters and control over implementation, it should be possible systematically to analyse, after the fact, the budgeting process for missions where the implemented appropriations show a significant drift away from what was intended, based inter alia on data produced under the general accounting system. Programming errors that are technical in origin, and even some specific extra-budgetary expenditures, could be prevented in future years as a result;

- in some cases, depreciation recorded in the general accounting system could cast light on the investment required in order to maintain the value of depreciable assets such as real estate, vehicle fleets or IT equipment[45]. The Budget Directorate and the CBCMs should be asked to take greater account of them when assessing the likely accuracy of budget forecasts;
- systematic definition of the date of enforcement of provisions would open the way for conducting consistency tests to ensure that future payment of provisions is in line with the budget trajectory as it appears in the budget accounting system in terms of Commitment Authorisations (CA).

b) Modernisation of certain other support services

Moving beyond budget procedures, data from government general accounting could be used to help modernise other support services.

Additionally, government procurement policy could be improved by analysing real estate, whether in terms of wear and tear or depreciation period. There are already good practices in place in this regard. Moreover, analysis of the nature and amount of financial transactions should help to identify low-value procurement and encourage bulk ordering. As a point of interest, close to one-third of accounting entries in the general government ledger for the 2014 financial year concerned amounts lower than EUR 100.

The State's investment strategy could be described on the basis of the allocations and write-backs entered under amortisation and depreciation. It would therefore be feasible to construct indicators that describe the work undertaken to maintain state assets in line with need. Additionally, an analysis of the depreciation periods reveals the multiannual investment cycles and helps to provide a better forecast of their peaks. Cost accounting would provide useful support for decisions by shedding light on projects' full costs. More broadly, the structure of the State's assets should be brought more closely into line with the structure of its revenues and expenses, so that an assessment can be made as to whether the State is capable of maintaining the assets for which it is responsible.

[45] The evaluation methods used result in no depreciation being applied to a significant number of state assets. Therefore, non-specific real estate is valued at its market value. Similarly, motorway infrastructure is valued at its replacement cost.

In terms of real estate policy, the Cour recently noted the importance of implementing a “genuine cost analysis supplemented by indicators for activity and performance in real estate” [46]. Regular publication of simple indicators will probably encourage the gradual levelling out of the largest differences between authorities.

For human resources management, work to survey time savings accounts (CET) for state officials and to calculate the amount of associated provisions illustrates that the general accounting system can help to bring about a convergence between management practices and the applicable regulations. Once information systems for human resources (SIRH) are operational in ministries, their interface with SIFE should act as a spur for extending cost accounting to human resources.

B - Reinvigorating the State’s financial reporting

Ten years on from its entry into force, the utilisation of government general accounting by non-administration bodies has fallen a long way short of initial expectations. Use of the financial statements by the Government, Parliament or public finance observers is most often ad hoc and insufficient to give them an overview of the financial position of the State as a whole.

This situation can, in part, be attributed to the ways in which the State reports financial information, e.g. in terms of scheduling and accessibility. It is also the result of external users’ inability to see what lessons can be learned from the information about the State’s financial position. In view of this, the Government could provide better support to external users of its financial statements, or even participate in the evaluation of the financial information it provides, for example by being clearer on the sustainability of its budget trajectory.

Several simple measures could help to achieve that objective.

[46] See Cour des Comptes, *Référé*, *Bilan de la politique immobilière de l’État*, [Balance sheet of state real estate policy], 30 December 2014, 20 p., available at www.ccomptes.fr.

1 - Improve reporting of accounts

Linked to the tabling of the draft finance settlement law, the current schedule for reporting government general accounts raises several problems:

– despite the stated intentions of the backers of the LOLF, the tabling of the draft finance settlement law has not become a high point of the annual cycle of public finance. Fundamentally, in parliamentary and administrative culture, it continues to be a “token act devoid of political significance”[47]. The introduction of the “European Semester”[48] has made it more difficult to satisfy the requirement for “virtuous chaining”[49] of settlement laws (LR) and draft finance laws (PLF);

- state reporting of general accounts is overshadowed because it clashes with the presentation of budget-year-end indicators and the audit findings. In order not to distort the messages to Parliament and the public, the Government is *de facto* dissuaded from presenting a detailed overview of the national finances as shown in the financial statements;
- government general accounting results are currently reported in line with a schedule that is out of kilter with the schedule for notification to the EU authorities of public finance performance indicators (notified balance, notified debt, etc.), which must occur by 1 April in year N+1;
- more broadly, delivery to the EU authorities of the Stability Programme would appear to have become a “new major fixture in the public finances for spring”[50], to the detriment, in particular, of the vote on the law on the financial settlement or the policy debate on the public finances (DOFP).

[47] See Senate, Rapport d’information n° 388 fait au nom de la commission des finances, du contrôle budgétaire et des comptes économiques de la Nation sur l’état d’avancement de la mise en œuvre de la loi organique du 1er août 2001 relative aux lois de finances [Briefing Paper No 388 on behalf of the Finance, Budget Control and Economic Accounts of the Nation on progress in implementing the Constitutional Bylaw of 1 August 2001 on Budget Acts], Jean Arthuis, Senator, July 2003.
[48] As part of measures to enhance macrobudgetary oversight in the euro area, in April [each year], each Member State must deliver to the European Commission a Stability Programme (PSTAB) setting out the multiannual trajectory for its public finances.
[49] In a “virtual linkage”, the finance bill N+1 cannot be scrutinised before the settlement for the financial year N-1.
[50] See Cour des Comptes, *Public Thematic Report: La mise en œuvre de la loi organique relative aux lois de finances (LOLF): un bilan pour de nouvelles perspectives* [Adoption of the Constitutional Bylaw on Budget Acts (LOLF): an overview and some new perspectives], *La Documentation Française*, November 2011, 236 p., available at www.ccomptes.fr.

In order to ensure that the reporting of the government financial statements takes this new background into consideration, the Cour suggests that a briefing on the provisional accounts should be made at the beginning of April, before the Stability Programme is delivered.

At this stage in proceedings, Parliament would not be the addressee of the government general accounts (CGE) but would instead receive a summary, for example in the form of a four-page brochure, drawn up using the provisional figures. In so doing, the State would be following good practice that has been in place since 2005 in the field of social finance. In April N+1, the Social Security Accounts Commission publishes the provisional assets and liabilities (branch balances, and net position of the social security debt reimbursement fund) compared to the accounts for year N for the general system.

2 - Improving access to financial information and its clarity

The format of state financial reports is a key factor both to buy-in by external users and to the underlying purpose of general accounting. Several people interviewed by the Cour, including administrators attached to the Parliamentary finance committees, stated that the presentation of the Annex to the CGE and the supporting documents do not encourage their use. Given that parliamentarians are among the chief external target users of the general accounts, this kind of finding must be acted upon.

The Cour is of the view that, in accordance with international best practice[51], and in close co-operation with interested parties, a support mechanism for external users of general accounts should be introduced that provides them with, inter alia, assistance in interpreting the financial statements.

[51] In the United States, the body responsible for producing accounting standards for the US federated state and local governments, the Governmental Accounting Standards Board (GASB) devotes a significant share of its activities to user training. See *International Public Sector Accounting Standards Board,* The Road to Accrual Accounting in the United States of America, *Information Paper*, March 2006. International comparisons point to the need to support users of the State's financial statements. See *Association of Chartered Certified Accountants*, Consolidated Government Accounts: How are they used? June 2015.

The presentation of the CGE Annex is governed by the Central Government Accounting Standards Manual (RNCE) and, more generally, by Article 30 of the LOLF. Even if the Annex becomes easier to understand and more accessible over the coming years, there is no guarantee that it will be transformed to the extent required to bring it within the grasp of readers who do not have a background in finance or accounts.

The Cour is of the view that it is more realistic to recommend that producers of accounts should focus their efforts on the clarity and accessibility of the introductory report in order to ensure that it is genuinely explanatory, supplements the CGE Annex, and makes it possible to understand the State’s financial position by referring to the key elements. To that end, the Cour suggests, among other things:

- avoiding the inclusion in the introductory report of the same information that is contained in the CGE Annex, if necessary by moving developments in the latter document into the former.
- moving sectoral information[52] from the CGE Annex to the introductory report to give it greater prominence;
- setting out, in the introductory report, the effects, whether positive or negative, of decisions taken by government authorities on the State’s financial position and the consequences in accounting terms for the development of key economic drivers[53];
- incorporating into the introductory report any developments in government exposure to financial risks, taking care to state any date of enforcement, the budget missions involved and their consequences for the sustainability of the state budget trajectory, such as best international practices[54]. These developments could also shed light on the work of the High Council of Public Finances (HCFP).

[52] The accounting standards require the State to set out the main items in its financial statements on the basis of their purpose. The State has identified seven sectors: regional bodies/local government [US], defence, financial debts, sustainable development; education and culture; finance; justice, security and other state missions.
[53] Therefore, a fall in interest rates is reflected in an increase in pension liabilities.
[54] In the United States, the Government Accountability Office (GAO) regularly publishes long-term projections of the balance of the federal finances. See Government Accountability Office (GAO), Projecting the Future of Federal Finances: Long-Term Fiscal Simulations, April 2015.

3 - Explain management outcomes and long-term sustainability

The eminent position occupied by budget and national accounting in the political decision-making process does not devoid government general accounting of all purpose in steering its financial trajectory forward. Government general accounting is likely to meet some of the expectations of users of the State's financial information, particularly those that relate to the conceptual framework of the public accounts. The system could be developed further to cast a retrospective analytical light on state management and the sustainability of the State's financial trajectory in the long term.

Because the State now has a system of general accounting that is close to that used by business, it should be possible to use methods of analysis comparable to those used by businesses in order to assess the financial position.

The construction of financial analysis ratios is one such method that gives pause for thought. The ratios method has been used successfully for many years to monitor the financial position of other government units, especially regional bodies and public institutions.

The publication of indicators that can shed light on the long-term sustainability of the State's financial position is a long-standing expectation cherished by parliamentarians, and one that government general accounting could help develop in a more systematic fashion.

Based on the model for regional bodies' financial reports, state financial reports could set out various sustainability indicators produced in the general accounting system: the self-financing ratio, debt reduction period, ratio of assets to financial debt, etc.

The indicators would have a natural home in the introductory report, in line with the practice of American administrations in this field.

C - Continue to change the accounting system

Moving beyond direct exploitation by internal or external users, general accounting is part of the State's accounting system as a whole and contributes indirectly to maintaining the government accounts in the national accounting system.

Its contribution to the transparency of the public accounts could be even greater if just a few changes were made to the state accounting system.

1 - Closer ties between the government general accounting system and government accounts in the national accounting system

To date, the process of preparing government accounts in the national accounting system has drawn most heavily on the data held in the budget accounts: the general accounts make a significant but limited contribution to certain aggregates. In order to ensure that the data from the government general accounting system make a greater contribution to the government accounts in the national accounting system, some consideration could be given to the following points:

- in order to ensure that the national accountant avails himself of the opportunity to correct the national accounts on the basis of anomalies highlighted by the auditor, the interim and final mission reports he/she makes could be forwarded as a matter of course to the national accounts department at the National Institute of Statistics and Economic Studies (INSEE);
- in order to make it easier to classify state expenditure in line with the nomenclature for government expenditure (COFOG), the "mission-programme-action" (MPA) nomenclature could be matched to that of COFOG;
- in order to ensure that data from government general accounting are used in formulating the national accounts notified to the European Commission, provisional data could be delivered to INSEE's national accounts department.

2 - Account more accurately for shared policies through aggregation of accounts

Parliament has long-standing expectations for the aggregation of accounts across government units, particularly with a view to gaining greater insight into the policies that involve more than one government unit.

The scope of these expectations was refreshed as part of the enhanced Stability and Growth Pact. Pursuant to the Constitutional Bylaw of 17 December 2012 on Public Finance Planning and Governance, Parliament decided when voting on the Initial Budget Act (LFI) not only on the focus of the state budget but on the focus of all government units' budgets. This has triggered a new need for information that could, in part, be met by aggregating government general accounting with the accrual accounting systems used by other government units, in conformity with the conceptual framework for the public accounts.

Further to the observations made in other projects, the Cour recommends preference should be given initially to combining[55] the government financial statements with those of its leading operators.

a) Combining government accrual-basis accounts with the accounts of its leading operators

Recently, government use of operators has grown sharply, most often in response to a decision to decentralise the decision-making process, and sometimes in response to budgetary requirements. This trend raises questions about policy transparency, particularly in the asymmetry of accounting information between the missions delivered by the State itself and those where it relies heavily on one or more operators. For government accounts, information concerning underlying assets or recorded liabilities, for example, are generally more detailed than that available when a third legal person, an operator, obscures the extent of the resources allocated or the risks taken.

[55] Unlike consolidation, combination aggregates the accounts of entities that form a coherent whole as a result of the relationships between them, especially economic ties, regardless of any equity links or controlling relationship that may or may not exist between them.

Given that most state operators use accrual accounting, this information asymmetry could be overcome by combining government general accounting with the accrual accounting system that some of the operators use. The result would be a single set of financial statements containing accounting data for the main policies delivered by the State and its operators.

In order to draw up the combined accounts, the Cour recommends that a list of operators should be identified whose accounts should be combined as a matter of priority, for example because of the size of the transfers they receive in order to deliver the public policies for which they are responsible. The Cour also suggests the adoption of an accounting standard on the combination of public accounts, and that an assessment should be conducted of the cost and timescale involved in implementing the changes that SIFE and the operators concerned would have to undergo.

Once these preparations are complete, it would be for the Government to set a realistic deadline of 2020[56], for the government accrual-based accounts to be combined with those of its leading operators.

RECOMMENDATION N° 9

Complete the preparations required to combine the Government's accrual-based accounts with those of its leading operators so that the combination of accounts can occur as of 2020.

[56] Year of full entry into force of the Central Government Accounting Standards Manual. See Ministry of Finance and Public Accounts, Recueil des normes comptables applicables aux établissements publics [Central Government Accounting Standards Manual], July 2015.

b) Combining government general accounting with other public-sector accounts

Several people interviewed by the Cour were of the opinion that combining government general accounting with the accrual accounting system used by its leading operators should be regarded as the first stage in a more ambitious process that ultimately aims to combine the government general accounting system with the accrual accounting systems used by all the entities that it controls, along with the other government units, regional bodies and social security bodies.

This is an attractive proposal in several respects: combined accounts for government units would provide an overall view of public policies, especially shared policies that involve more than one tier of government and cannot be identified in the national accounts. By neutralising financial flows between government units, it would clarify the real contribution made by each unit to the conduct of public policies while highlighting the means available to the units. Combining the accounts would increase the complementarity of the individual contributions.

However, combining accrual-based accounts from the various public-sector players would be a burdensome and costly exercise. There is no guarantee that the ratio of the cost of IT and human resources involved to the benefit gained would be favourable, especially in an environment where the national accounts already provide an aggregate view of the financial position of government units which, although imperfect, is broadly recognised nationally and internationally.

Indeed, the relationship between the government general accounting system and the government accounts in the national accounting system could well undergo EU-led changes in future years. On those grounds, the Cour is of the view that it would be premature for the State to undertake work to combine its accruals-based accounts with those of other government units.

Moreover, the Cour has not identified any interest in consolidating or combining the government general accounting system with the general accounting system used by the business sector entities that it controls, including where those entities are entrusted with public service missions.

3 - Helping to draw up European standards for general accounting systems

During the discussions preceding the adoption of the enhanced Stability and Growth Pact in October 2011, Members of the European Parliament, supported by representatives of some of the Member States, suggested making accrual accounting, as set out in IPSAS (International Public Sector Accounting Standards), standard practice across the euro area States. They were of the view that such a measure would facilitate comparison of their respective financial positions.

Because other States objected to the proposal, the European Commission commissioned a study on the feasibility of, and interest in, making the use of public-sector general accounting standard practice. The findings of the study, published in August 2014, stated that all European States would gain from adopting accrual accounting based on common standards. Eurostat was of the view that the IPSAS in their current form did not provide an appropriate, comprehensive basis of accounting, and recommended that a specific European framework should be drawn up, provisionally known as: European Public Sector Accounting Standards (EPSAS).

In the light of experience since 2006, and in order to protect its own interests[57], France has a key role to play in the process of drafting European public-sector accountancy standards, even though they may not be implemented for several years given the need for stakeholder consensus. If actually implemented, the use of accrual accounting systems in the public sector across Europe would open the way to gradual convergence of the government general accounting system and its accounts in the national accounting system.

D - Formulating an overall strategy

As when reforming its budget and fiscal procedures under the LOLF, the State must now draw up an overall strategy to develop further the use of its general accounting system in order to modernise public-sector management.

[57] A review of accounting standards could have cost implications, for example if the Government Financial Information System (SIFE) was to be re-configured.

Covering both accountancy and management services, this strategy could include a focus on removing the barriers that restrict full access by central government accountants to data in their field of expertise and the systematic circulation to managers of accounting data restitutions within the boundaries of their responsibility. Additionally, cost accounting should be further developed in authorising services, greater support should be provided for managers and financial controllers and, whenever possible, general accounting should be used in budgeting and to make support services as effective as possible.

The responsibility for drafting and steering this strategy should be given to a clearly identified authority, even though it is the responsibility of the DGFiP and the Budget Directorate to co-ordinate the development of general accounting.

An update on this process, which requires a strong policy commitment, could be delivered each year to the Finance Committees of the National Assembly and the Senate.

RECOMMENDATION N° 10

Beginning in 2016, draw up a three-year development strategy for utilisation of government general accounting, together with quantifiable objectives that can be the subject of an annual presentation to the houses of parliament.

CONCLUSION

The contribution that government general accounting makes to the transparency of the State's financial position and to the process of modernising its management does not measure up to the work done by the authorities to keep those accounts nor, in particular, to the expectations that the legislator had in mind when formulating them.

That finding should not lead to the conclusion that the introduction of government general accounting into the accountancy system has been a failure. It was inevitable that, at the end of the new system's initial period of implementation, during which the authorities had completed a major undertaking, the effort made would exceed the benefit obtained.

At this stage, the cost/benefit analysis of government general accounting therefore cannot be neutral. A new stage is now beginning, during which the State needs to make the most of the investment it has made since 2001. To that end, it should take care to reduce the costs of the general accounting system in order to make efficiency gains while developing practices that will improve efficiency.

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Overall conclusion

Ten years on from the entry into force of government general accounting, the key objective set by the legislator has been achieved: information on state assets and obligations has improved significantly, thereby contributing to a more transparent financial position.

Indeed, the general accounting system has underpinned the modernisation of government financial services. By developing synergies between managers and accountants through incremental changes in their respective roles in preparing accounts, general accounting has promoted more formal reporting and decision-making channels. Its introduction was accompanied by upgrades to IT systems that set the stage for a reduction in manual accounting entries and a fall in the number of repetitive tasks. It also sped up circulation of the risk-management process in government services, as well as helping to improve budget tracking for some mechanisms and the process of formalising procedures.

The general accounting system has also had a knock-on effect on the reliability of other government accounting systems, including national accounting. It has had a beneficial impact on accounting in other public-sector entities, including public establishments, and has helped to delineate the State's financial relationships with social security bodies and local government bodies.

The benefits that the State has gained from general accounting do not yet, however, measure up to all the objectives set by the legislator or the resources allocated to achieving them. In isolation, the work involved in terms of harnessing manpower (estimated at 2 700 full-time equivalent employees according to the data supplied by the authorities) does not appear to be significantly disproportionate given the 125 million transactions recorded annually and the comparative data available.

However, despite the magnitude of the resources (especially budgetary resources) employed, the preparation procedures in government general accounting continue to pose recurrent difficulties, especially within management services, e.g. transaction complexity, staff shortages, sometimes sketchy training, non-retention of teams and inadequate support mechanisms.

Similarly, the benefits generated by general accounting fall short of the targets set. The use made of the general accounting system is still too low even today, in comparison in particular with budget accounting and the government accounts in the national accounting system. The institutional report that accompanies the publication of the financial statements still focuses on the number of qualifications made by the auditor rather than on the overview of the State's financial position provided by the general accounts. In fact, those aspects are neither assessed by the Government nor scrutinised by Parliament, nor are they used by the Government's creditors or rating agencies.

Because the use made of the general accounting system is too low even within government departments, administrative practices have not moved on, and managers are reluctant to adopt the system as a steering aid and management tool. Accordingly, the contribution of general accounting to the quality and reliability of the budgeting process has been more limited than anticipated. There are several reasons for this: delays in preparing the accounts, poor reliability of certain indicators, the uncertainty inherent in reflecting contingencies and charges in the budget, and budget constraints (e.g. in order to complete IT upgrades).

These findings should encourage the government authorities to re-investigate the merits of some of the structural choices made in the LOLF that underpin some of these limitations. This includes the refusal to adopt accrual budgeting and ministry-based accounts which are the vehicle that will deliver the increased managerial accountability that the LOLF seeks to achieve.

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For the immediate future, the Cour makes two sets of recommendations under the 2001 legislative framework.

The first suggests that the authorities should improve the preparation procedures for government general accounting. First, it is crucial that the effort required of the ministerial departments is more in proportion to the increase in the reliability of the accounts and modernisation of management practices. To that end, lightening their workload, increasing the support they receive, linking the systems of budget and general accounting, providing training and making careers more attractive are essential tools in ensuring that the objectives set when the LOLF was adopted can be achieved in practice.

At the same time, the process of modernising the State's financial services must continue. The Cour recommends introducing invoicing services across the board to increase the speed and efficiency of processing accounting transactions; developing simplified, enriched processes for data entry into Chorus; and continuing with IT upgrades.

The second series of recommendations aims to achieve much higher utilisation of government general accounting in future.

Several measures are likely to prove key to achieving this aim. For example, giving ministerial accountants and managers access to data related to the boundaries of their particular responsibilities. This could eventually lead to a greater alignment of those areas. Where justified, the development of genuine cost accounting should be pursued, where necessary by re-allocating some or all resources currently allocated to cost analysis accounting (CAC).

Where external use of general accounting is concerned, the Cour notes that the government reporting on the State's financial position should be updated to make better use of the information made available through general accounting, in addition to the light shed by its other accounting systems. Moreover, combining the government accounts with those of its leading operators would help to increase transparency in jointly delivered public policies.

In order to achieve these objectives, the Government should adopt a strategy that will fully utilise general accounting to modernise public-sector management. Implementation of the strategy, which requires a strong policy commitment, should include quantifiable objectives and a three-year deadline. Progress should be the subject of an annual presentation to the Finance Committees of the National Assembly and the Senate.

Recommendations

The Cour makes the following recommendations to the State:

In order to improve preparation procedures in government general accounting:

1. systematically do what is necessary to improve the reliability of the accounts, take greater account of the needs of managers and the constraints they face, ensure that the accounting framework is stable and realistic;
2. encourage co-ordination across the government financial services by designating specific officials within the DGFiP, improving accountancy paperwork and supporting managers in processing computerised accounting data restitutions;
3. undertake a systematic review of all concepts used in budgetary and general accounting in order to identify any potential alignment and establish any necessary linkages;
4. develop accounting skills within management services by identifying existing expertise, adjusting training programmes and boosting ministerial inspectorates' capacity in the field of accountancy;
5. by 2017, complete the across-the-board introduction of invoicing services and, in the short term, where warranted by the evidence, invest in projects to encourage greater integration, automation and paperless procedures in the preparation of the government accounts.

In order to increase the utilisation of government general accounting:

6. provide ministerial accountants with full, rapid access to the general accounting data on the decentralised services within their remit and, ultimately, match their field of responsibility more closely with that of the managers;
7. conduct a trial involving a group of pilot departments systematically to circulate accounting data restitutions in line with the boundaries of their responsibility;
8. where justified, increase the use of cost accounting in management services and, based on an assessment of the purpose of cost analysis accounting, reassign some or all of the resources allotted to it;
9. complete the preparations required to combine the Government's accrual-based accounts with those of its leading operators so that the combination of accounts can occur as of 2020;
10. beginning in 2016, draw up a three-year development strategy for utilisation of government general accounting, together with quantifiable objectives that can be the subject of an annual presentation to the houses of Parliament.

Glossary

Accruals: term used in general accounting to refer to specific liabilities: the amount or maturity date must sometimes be estimated with a lower degree of uncertainty than that which applies to provisions for contingencies and charges. Consequently, accruals are related to debts.

Action: term used in budget accounting to refer to an element within a government budget programme to clarify the destination of appropriations that have been requested, opened or utilised. An action may comprise appropriations aimed at a specific group of users or recipients or a particular form of government intervention.

Additional day: term used in budget accounting to refer to the period of year N+1 during which budget transactions (expenditure incurred and receipts issued) relating to financial year N can be offset.

Authorising officer: a public agent or elected official with the power to issue revenue or expenditure orders.

Budget accounting: Accounting system showing the opening and utilisation of commitment and payment authorisations, as well as authorised receipts (Article 58 of the GBCP Decree of 7 November 2012).

Chorus: Enterprise resource planning (ERP) application based on SAP software and used by the Government in general and budget accounting.

Classification of Functions of Government (COFOG): a system drawn up by the OECD; draws on the System of National Accounts to classify various kinds of expenditure by the aim that the government units seek to achieve.

Commitment authorisation (CA): in budget accounting, the upper limit on expenditure that may be committed. Commitment authorisations are consumed by entering into expenditure commitments (legal obligations) to cover the fixed amount which the Government has committed in relation to a third party.

Cost analysis accounting (CAC): accounting system that aims to provide Parliament and the public with a prompt, uniform reading of all resources allocated and consumed in the performance of actions taken under the government budget programmes.

Decentralised services: entities vested with governmental authority in the regions and départements, managed by a chief administrative officer (préfet) under ministerial authority.

Deferrals: term used in budget accounting to refer to the carry-over to the following year of expenditure that should have been paid out during the financial year in question.

Disbursement appropriations (DA): term used in budget accounting to designate the ceiling for expenditure payable during the year to cover commitments made in the current year or prior years.

Enterprise resource planning (ERP) application: computerised resource-planning system.

Event report (CRE): preferred format for data exchange under Chorus. Under this method of data transmission, figures are entered by an interpretive program that associates each kind of event with the appropriate accounting method.

Government accounting system: the various public accounting systems of the State within the meaning of the Decree of 7 November 2012 (including budget accounting, general accounting and the accounts in the national accounting system).

Government Financial Information System (SIFE): combination of the budget and accounting applications used in the ministries' central and decentralised offices. The chief enterprise resource planning (ERP) application is Chorus.

Hierarchical expenditure control (CHD): method used by a government accountant to match controls on expenditure to risks and exposure.

Invoicing service (SFACT): single centre processing and paying invoices for one or more government services.

Liabilities: term used in budget accounting to refer to commitments which had not resulted in the use of payment appropriations as of 31 December of the year in question. They take into account commitments for prior years and thereby constitute a future budget liability.

Mandatory spending: term used in budget accounting to refer to expenditure on services performed and authorised during the prior year but not yet paid for (Article 95 of the GBCP Decree). It therefore refers to costs that the Government is required to pay in the following financial year.

Ministerial Budget and Accounting Control Officer (CBCM): person within each ministry who, under the direction of the Minister for the Budget, oversees the implementation of the Budget Acts. Assesses programme sustainability and the quality of budget accounting. He/she is the public accountant assigned to the minister, who is the chief authorising officer to whom he/she reports.

Ministerial finance function manager (RFFiM): the individual in each ministry who acts as a co ordinator, draws up budget and accounting summaries, and oversees the sustainability of the ministry’s budget. The Decree of 24 July 2014 on permanent secretaries of ministries confers responsibility for the finance function of their ministry upon them.

Mission: term used in budget accounting to describe a set of government budget programmes that contribute to the implementation of a single public policy, whether the programmes in question are the responsibility of one or more ministers. Only a provision in a government finance bill can establish a mission. It is used to describe the subject of a parliamentary vote on appropriations.

National accounts/national accounting system: quantified representation of a country’s economic activity. The INSEE uses the European System of Accounts (ESA 2010) to draw up the accounts, which in turn is the product of the System of National Accounts (2008 SNA) published by the United Nations.

Operator: term used in budget accounting to refer to legally autonomous bodies that have a very close relationship with the Government because of the way they are funded and the contribution they make to the performance-based approach to government. The concept of “operator” is unrelated to whether its legal personality is founded in public law or private law.

Programme: term used in budget accounting to refer to the set of specified appropriations that underpins the budget authorisation given by Parliament. A programme combines appropriations intended to implement an action or a cohesive set of actions under a single ministry that are linked to precise aims defined in terms of public interest objectives and anticipated outcomes, and are the object of assessment.

Programme Operating Budget (BOP): term used in budget accounting to refer to the breakdown of budget authorisations, objectives and outcomes expected of a government budget programme based on a functional or geographical requirement.

Shared Service Centre (SSC): service given responsibility by one or more authorising officers for handling budget and accounting transactions in the government financial information system.

Unavoidable expenditure: term used in budget accounting to refer to liabilities that will become due during the financial year, costs involving existing staff, costs associated with the implementation of laws, regulations and international agreements, and such costs as are strictly necessary to ensure the continuity of service provision (Article 95 of the GBCP Decree).

International comparative data

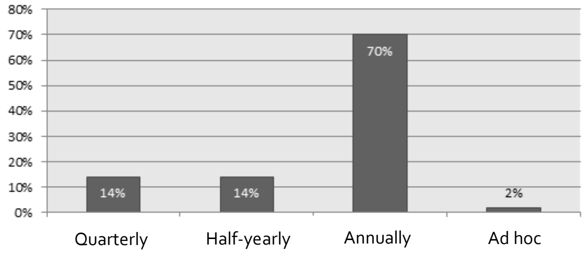
The aim of this Annex is to give an overview of the accounting practices adopted by other States and to identify examples that could, where necessary, inform the development of accrual accounting in the public sector in France.

Most States produce public-sector accounts annually, regardless of whether they use accrual accounting.

In 2013, a survey[58], whose findings have been validated by the European Commission, was conducted of public policy makers in 100 countries on the introduction of an accrual-based public accounts system. It shows that, although the norm for listed companies is quarterly accounts, the majority of States surveyed, including France, compile public-sector accounts annually. The managers interviewed said that preparing quarterly accounts would impose a significant burden that could not be justified by the benefits that quarterly publication would bring.

[58] PricewaterhouseCoopers, Towards a new era in government accounting and reporting, April 2013.

Figure 4: Frequency of public-sector accounts preparation



There is great diversity in public-sector accounting practices.

Public accounting systems cover a broad spectrum of methods that combine data from cash accounting and accruals accounting.

Accounting practices are generally classified into four categories:

Figure 1: The spectrum of government accounting practices

Cash accounting	**Modified cash accounting**	**Modified accrual accounting**	**Accrual accounting**
Cash payments and receipts are recorded as they occur.	Cash receipts and disbursements are recorded and reported for a specified period after the balance sheet date.	Accrual accounting is used, but certain classes of assets (e.g. fixed assets) or liabilities are not recognised.	Transactions and economic events are recorded and reported when they occur, regardless of when cash transactions occur.

Additionally, “accounting maturity” or the level of reliability of accounts can vary depending on the public-sector entities concerned. A study commissioned by the European Commission sets out the degree of “accounting maturity” within various levels of government units in the European Union. The findings of the study give an overview of the heterogeneity of accounting practices at various levels of government units in the Member States.

Figure 2: Accounting maturity per government level[59] for the Member States

	High Accounting Maturity	Average Accounting Maturity	Low Accounting Maturity
Federal or central level	Austria, Czech Republic, Denmark, Estonia, Finland, **France**, Latvia, Lithuania, Slovakia, Spain, Sweden, United Kingdom	Belgium, Bulgaria, Hungary, Ireland, Poland, Portugal, Romania, Slovenia	Croatia, Cyprus, Germany, Greece, Italy, Luxembourg, Malta, Netherlands
State (in a federal State)	n/a	Belgium, Spain	Austria, Germany
Local government	Belgium, Cyprus, Czech Republic, Estonia, Finland, **France**, Ireland, Latvia, Lithuania, Malta, Portugal, Slovakia, Sweden, United Kingdom	Bulgaria, Denmark, Germany, Hungary, Netherlands, Poland, Romania, Slovenia, Spain	Austria, Croatia, Greece, Italy, Luxembourg
Social security funds	Czech Republic, Estonia, Finland, **France**, Lithuania, Netherlands, Portugal, Sweden	Austria, Belgium, Bulgaria, Croatia, Denmark, Hungary, Ireland, Latvia, Poland, Spain	Cyprus, Germany, Greece, Italy, Luxembourg, Romania, Slovakia, Slovenia

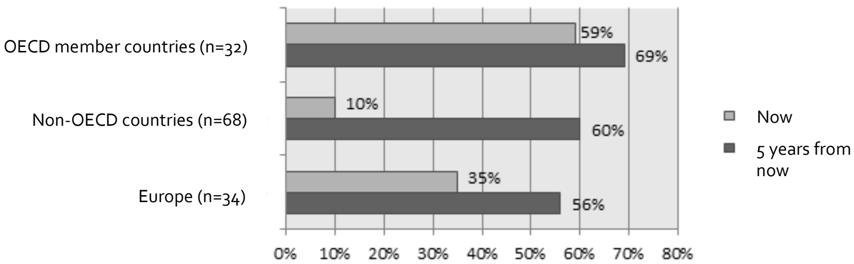
Source: PricewaterhouseCoopers, Collection of information related to the potential impact, including cost, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards, August 2014.

[59] Accounting maturity reflects the degree of compliance of the government units' accounting rules with IPSAS accounting standards. Average accounting maturity was calculated using a grid, weighted to reflect the importance of the various IPSAS standards.

The number of countries adopting accrual accounting for the public sector is rising, in particular as a result of the recommendations made by major international organisations.

Since the 1970s, there have been many changes in public-sector management in OECD countries. The shift has been towards the adoption of practices used by big business with the goal of improving policy performance. This led several countries to introduce accrual accounting in the 1990s. Within the OECD, these countries include New Zealand, Australia, the United Kingdom, Canada and the United States as part of wide-ranging reforms to improve public-sector performance.

Figure 5: The trend toward accrual accounting



Major international organisations encourage the introduction of structural reforms to improve the management of government units. The G20[60] recently emphasised the need for transparent, comparable public-sector financial reporting, including public-sector balance sheets, in order to improve the assessment of risks related to public-sector debt sustainability.

For developing countries, the public-sector management reforms aim to increase confidence among institutional investors.

The example of Brazil

Brazil has had recourse to financing from international development aid institutions (e.g. the Inter-American Development Bank). The introduction of accruals accounting aims to provide greater transparency in the State's financial position and has contributed to its securing loans from international financial institutions.

Source: Cour des Comptes

[60] Communiqué of G-20 Finance Ministers and Central Bank Governors following their meeting in February 2013 in Moscow.

In the European Union, the European Commission (Eurostat) has just finalised its assessment of the suitability of IPSAS as a basis for financial reporting for Member States and has forwarded the assessment to the European Council. Based on the public consultation conducted by Eurostat, there is wide acceptance of the need for a set of harmonised accrual-based public-sector accounting standards in Europe. The report concludes that "even if IPSAS cannot be implemented in European Union (EU) Member States as it currently stands, the IPSAS standards represent an indisputable reference for potential development of European Public Sector Accounting Standards (EPSAS), based on a strong EU governance system."[61] The IPSAS standards have been used by 13 Member States as a basis for developing their own accounting standards.

[61] *See PricewaterhouseCoopers, Towards a new era in government accounting and reporting, April 2013.*

Table 3: Reference to IPSAS standards in the accounting legislation of the Member States

Reference to IPSAS standards	Member States
Accounting legislation specifies an explicit requirement to comply with the IPSAS framework as a whole.	n/a
Accounting legislation makes explicit reference to IPSAS standards as the primary basis for developing government accounting standards.	Estonia, Lithuania, Portugal, Spain.
IPSAS standards are used as a primary basis for developing government accounting standards, although no explicit reference to them is made in the accounting legislation.	Austria, Latvia, Slovakia, Sweden.
Although not as a primary reference, IPSAS standards are used as a source of inspiration for developing government accounting standards, although no explicit reference to them is made in the accounting legislation.	Belgium, Croatia, Cyprus, Czech Republic, Denmark, **France,** Romania, Slovenia, United Kingdom.
IPSAS standards are not used for developing government accounting standards.	Bulgaria, Finland, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Malta, Netherlands, Poland.

Source: PricewaterhouseCoopers, Collection of information related to the potential impact, including cost, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards, August 2014.

Budgets are still chiefly compiled using cash accounting, including in States that use accrual accounting.

The introduction of accrual budgeting has occurred only in States which have accrual accounting, or sometimes modified accrual accounting.

The shift to accrual accounting has not necessarily included implementation of accrual budgeting. Several of the States that have embraced accrual accounting most fully have retained a cash budgeting procedure.

Table 4: Budgeting and public-sector accounting procedures

	Cash budgeting	Modified cash budgeting	Modified accrual budgeting	Accrual budgeting
Cash accounting	Germany, Israel, Mexico, Slovenia	-	-	-
Modified cash accounting	Greece, Ireland, Luxembourg, Netherlands, Portugal	Italy, Norway	-	-
Modified accrual accounting	Spain, **France**, Lithuania, Czech Republic, Slovakia	-	Austria, Belgium, Denmark, Iceland, Switzerland	-
Accrual accounting	Canada, Korea, Hungary, Latvia, Poland	Chile, Estonia, United States, Finland, Sweden	-	Australia, New Zealand, United Kingdom

Source: Jón R. Blöndal, The OECD Accruals Survey, 15th Annual OECD Accruals Symposium, 26 February 2015.

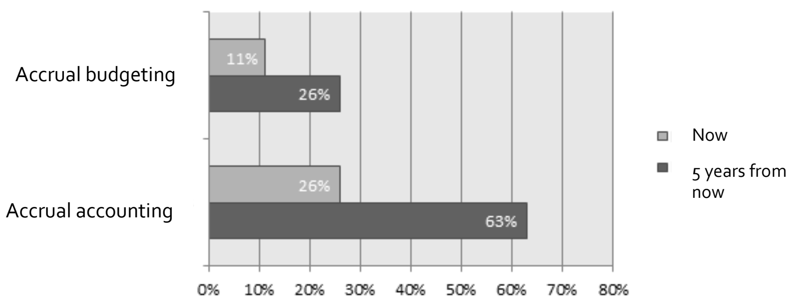
While the proportion of countries that have adopted government accrual accounting is rising steadily, there seems to be less appetite for accrual budgeting.

Accrual budgeting could become more widespread in future years.

The study conducted by PwC on behalf of the European Commission on the implementation of accrual accounting in the public sector states that “the common reason given is that accrual budgeting is viewed as too complex and that politicians are unwilling to change, given their understanding of, and familiarity with, cash budgeting systems”.

However, the study anticipates a trend towards accrual budgeting within five years because 26% of the States questioned in the survey are likely to have an accrual-based budget by then, compared to 11% currently.

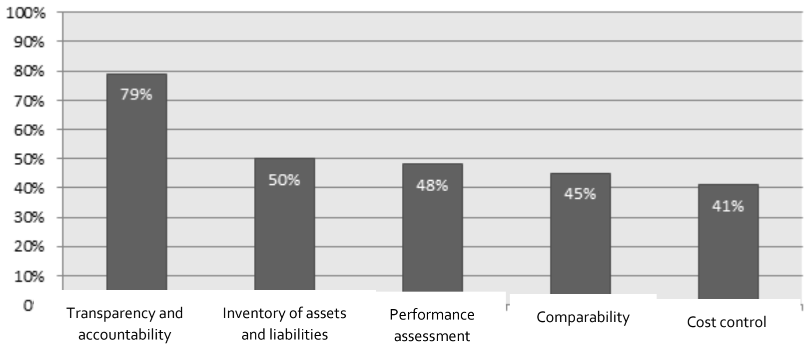
Figure 6: Comparative trend toward accrual accounting and budgeting



The contribution that accrual accounting makes to transparency of the public finances is widely recognised.

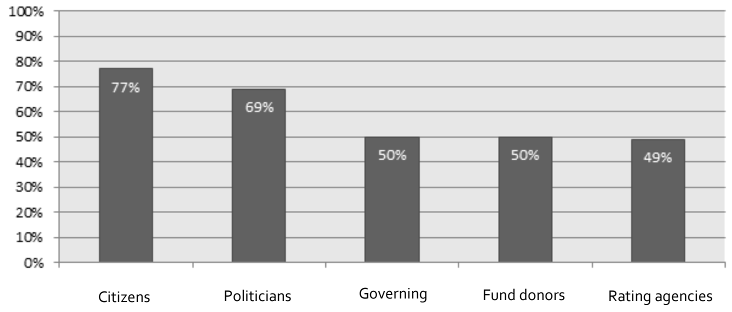
The study also states that most government officials surveyed are of the view that the introduction of accrual accounting has increased transparency of public policy

Figure 7: Benefits of accrual-based financial statements (share of respondents who mentioned this factor)



The government officials surveyed stated that citizens were the main users of accrual-based financial statements.

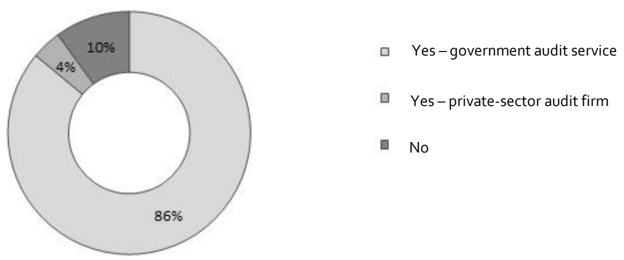
Figure 8: Benefits of accrual-based financial statements (share of respondents who mentioned this factor)



Auditing adds credibility to government accounts and helps to improve accounting practices.

The survey shows that the majority of government accounts, for all levels of government, are audited. The vast majority of government accounts are audited by a government audit service.

Figure 9: Government audit practices



Where they do not routinely sign off the accounts without qualification, pressure from auditors leads management to seek continuous improvements in the quality of the financial statements.

The example of the United States

Since 1997, the GAO has issued a disclaimer of opinion concerning the consolidated financial statements of the federal government. That position occurred for the 15th time in succession for the accounts for the financial year October 2013-September 2014.

The Federal Government appears to be making no progress in preparing its accounts. That appearance is deceptive, however: the GAO notes "significant" progress, particularly in the Department of the Treasury (Treasury) and the Office of Management and Budget (OMB), in preparing the financial statements. It also notes that, excluding social security programmes, the individual financial statements received an unqualified opinion for all 24 ministries and leading agencies apart from the Defense Department.

Source: Cour des Comptes

A comprehensive inventory of government assets and liabilities is one of the main benefits of introducing accrual accounting.

Half of the government officials surveyed regarded knowledge of state resources as among the main benefits of adopting accrual accounting. Accrual accounting requires a census to be taken of government units' assets and liabilities. The work involved in drawing up an inventory forces the adoption of accounting methods that can be used to make asset projections.

The example of the United Kingdom

A liability of £64.3 billion was recognised for nuclear decommissioning in the accounts for 2012, and has been the focus of parliamentary scrutiny through the Public Accounts Committee. Members of Parliament have questioned the Department of Energy and Climate Change on the underlying factors driving the liability and the outcomes of decommissioning work to determine an appropriate policy. This clear view of decommissioning liabilities has helped ensure funding for decommissioning costs for which future generations will be liable.

Source: Cour des Comptes

Accounting for events as they arise rather than as part of cash flow provides a more reliable picture of the reality of the State's financial position at the balance sheet date. Accrual accounting provides a better understanding of the likely long-term financial exposure of the State's financial position.

The Austrian example

Accrual accounting led to recognition of the Austrian State's assets and liabilities in the government financial statements. The very exercise of preparing the opening balance sheet served to enhance the understanding of the Government's resources: without a balance sheet, the public debate focused only on government commitments. The Ministry of Agriculture, for example, had been seen as a spending agency prior to accrual accounting. Following the reform, the Ministry recognised EUR 20 billion in assets and was forced to make conscious decisions on how best to manage these assets.

On the liabilities side, accrual accounting has also helped to flag financial risks, such as those related to the use of derivatives. The newly available accrual data led public finance commentators to begin asking government authorities questions about the risks.

Before the introduction of accruals, the debate regarding railway financing was based on cash figures which did not give a comprehensive view of railway financing, obscuring long-term financial liabilities that could increase the budget (commitments related to long-term lease agreements). Now, under accrual accounting and budgeting, the full cost of the railway investment programme is reported, paving the way for an informed debate as to how best to finance these operations.

The Austrian State has, on several occasions, funded infrastructure through buy-now-pay-later schemes or the sale of real estate and other non-financial assets. The Austrian accrual accounting reform is credited with shedding light on the scope of this practice.

Accrual accounting has also highlighted the effect on the public-sector accounts of the privatisation of certain entities that provide a public service. The immediate revenue generated by a privatisation is no longer the only information that appears in the public accounts.

Source: Cour des Comptes

The adoption of accrual accounting is an opportunity to improve administrative and financial processes.

The shift to accrual accounting has a major impact on administrative processes in the public sector, most importantly in terms of the IT infrastructure.

Four Member States[62] of the European Union list audit and internal control enhancement and a reduction in the administrative burden among the major benefits of accrual accounting. The study referred to above states that the adoption of accrual accounting in public accounting systems "provides an opportunity to upgrade management information systems and streamline administrative processes to increase efficiency in public administration".

[62] *The United Kingdom, France, Estonia, Lithuania and the city of Essen in Germany.*

The Member States often refer to centralisation of certain processes as one of the important features of their public-sector management reforms. Additionally, one Member State noted that a cost-saving could be achieved if accounting standards were drawn up in a centralised fashion at European level.

The example of Estonia

Accrual accounting is the bedrock of more extensive reforms that seek to achieve public service efficiency. A Shared Service Centre was introduced in 2013 to centralise all the State's payroll services in the aim of producing a shared information system. It has led to economies of scale in terms both of the IT accounting systems and administration.

Source: Cour des Comptes

A survey by the British Association of Chartered Certified Accountants, Durham University Business School and various foreign universities shows that the adoption of accrual accounting in five States[63] improved accounting practice and highlighted some shortcomings, especially where liabilities were concerned.

[63] *The United Kingdom, Canada, Australia, New Zealand and Sweden. See Association of Chartered Certified Accountants, Consolidated government accounts: How are they used?, June 2015.*

The example of Sweden

Each accounting entity is required to produce financial information monthly and send it to a central service, the Swedish National Financial Management Authority (ESV). Some data are aggregated monthly, others quarterly or annually. Each entity has its own accounting standards. However, the data communicated monthly must comply with the reporting model laid down by the central entity. Consolidated accounts are produced annually once transactions between entities have been removed. Agencies are required to reconcile their balancing entries to remove certain reciprocal transactions ahead of the centralisation procedure (receivables and liabilities, revenue and expenditure and contributions).

Source: Cour des Comptes

In order to be fully effective, the adoption of accrual accounting must be included as part of a package of public-sector management reforms focusing on achieving improvements in operating performance and quality of services.

The success of public-sector accounting reforms cannot be reproduced in identical fashion in every country. In developing countries in particular, the success of these reforms is intrinsically linked to their being part of a framework of broader administrative reforms[64].

This statement is echoed in the survey on public-sector accounting systems conducted on behalf of the European Commission. It states that the benefits of transitioning to accrual accounting will only be fully felt if undertaken as part of a broader package of financial reforms that encourages the provision of high-quality financial information and improvement in operating performance and service quality, thus contributing to the long-term viability of the public finances.

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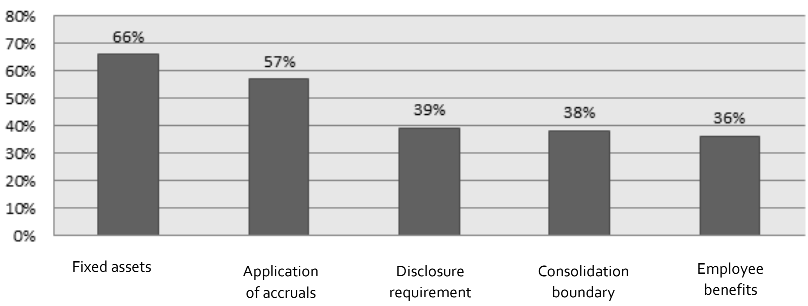
[64] *See Allen Schick, Why Most Developing Countries Should Not Try New Zealand Reforms, The World Bank Research Observer, Vol. 13, No. 1, February 1998.*

The adoption of accrual accounting involves a significant volume of work (especially when preparing the opening balance sheet) but offers the opportunity to assess public entities' assets.

The process of assessing and accounting for fixed assets involves a significant volume of work, especially when preparing the opening balance sheet. However, as shown in Figure 10 below, accounting for fixed assets in the financial statements is regarded as the major accounting benefit by the respondents in the above-mentioned survey. Indeed, the "[a]vailability of such rich, detailed information in turn helps to identify opportunities for cost savings and optimisation".

Figure 10: Accounting impacts of accrual-based financial statements (share of respondents who mentioned this factor)

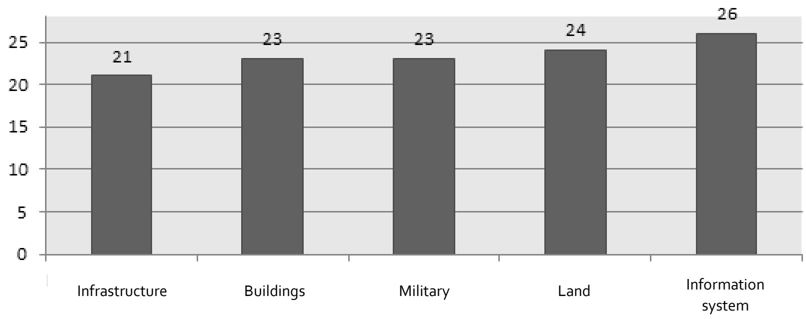


That survey states that "[s]trong asset management practices will provide information for use in determining financing strategies, repair and maintenance schedules, optimal space allocation, logistic and supply chain management practices, and asset-disposal decisions."

Most EU central governments hold a physical inventory of land, buildings, facilities and IT systems.

Based on the experience of the Member States that have adopted accrual accounting, drawing up a full inventory of all fixed assets, especially where no historical cost information exists, is an exercise that can take several years.

Figure 11: Member States maintaining a physical inventory of fixed assets



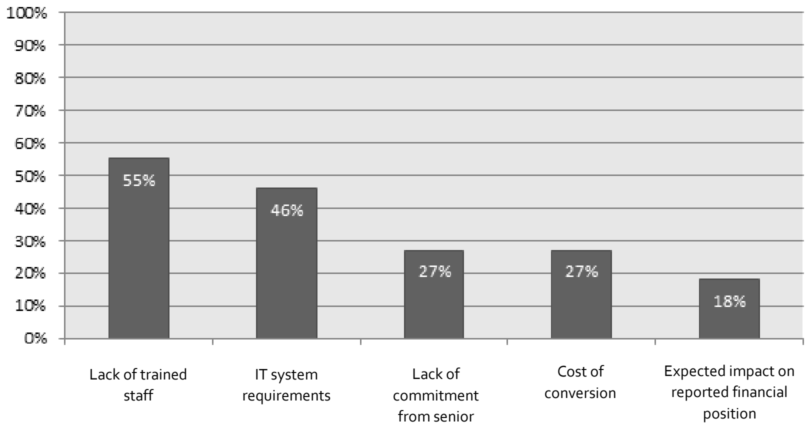
Source: PricewaterhouseCoopers, Collection of information related to the potential impact, including cost, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards, August 2014.

Differences in boundaries hinder comparison of accounts between States, and the initial choices made have a very extensive effect on the way in which the accounts are used subsequently[65].

The lack of trained staff is one of the main challenges facing States that have adopted accrual accounting.

[65] *See Association of Chartered Certified Accountants, Consolidated government accounts: How are they used? June 2015.*

Figure 12: Challenges of accrual accounting conversion (share of respondents who mentioned this factor)



Over half of the survey respondents identified the lack of trained staff as one of the principal challenges faced when implementing accrual accounting. Accrual accounting is more complex than cash accounting. It requires greater technical accounting expertise, increased professional judgment, and greater involvement of non-accounting staff in the decision-making process.

At European level, that finding has been referred to on several occasions by the Member States. Member States that have adopted accrual accounting invested significantly in the recruitment and training of officials in areas other than the finance function.

Using accruals as the basis of government accounting facilitated recruitment of finance staff from the private sector. Further, the harmonisation of accounting standards at European level would increase the mobility of finance and accounting personnel across the Member States.

The development and introduction of enterprise resource planning (ERP) is a costly aspect of conversion to accrual accounting.

The development and adoption of ERP is one of the most costly aspects of conversion to accrual accounting. Almost half of the respondents to the PwC Global survey on accounting and fiscal reporting referred to above identify IT system requirements as one of the top three challenges faced when adopting IPSAS or similar standards.

The survey argues that "[t]echnical IT and enterprise resource planning (ERP) expertise is required from the very start of the conversion process, in such activities as system architecture and design, through to embedding activities including staff training for data entry and management".

Accurate ascertaining of the costs of converting to accrual accounting is a complex task because they are affected by many factors.

The information provided by some countries indicates that the cost of adopting accrual accounting can range between 0.02% and 0.1% of the gross domestic product (GDP) of the country in question[66].

The costs are affected *inter alia* by:

- the scale (areas of the public sector involved) and pace of accrual implementation;
- the size and complexity of the administrative structure.

[66] *See Christian Rainero, Silvana Seccinaro, Alessandra Indelicato, The European Process of Accounting Harmonization: Current Status and Future Developments. The Case of Italy, International Journal of Humanities and Social Science, Vol. 3, No. 13, July 2013.*

Buy-in of financial statements published by States that have adopted accrual accounting is hindered by the absence of financial literacy and the complexity of financial reporting.

The survey by the British Association of Chartered Certified Accountants, Durham University Business School and various foreign universities points out that the financial statements published by five States[67] that have adopted accrual accounting are under-used as a tool for shaping economic and fiscal policy.

Parliamentarians are generally unaware of the benefits they can gain from scrutinising the State's financial statements and often do not have the financial expertise required to understand their significance. Most still focus heavily on the budgetary process. Furthermore, rating agencies and financial analysts make little use of consolidated government accounts.

The mere existence of reliable accrual-based accounts is not sufficient to ensure that they are used effectively and, more generally, prove helpful in the financial management of States.

In order to increase their relevance, the financial statements should be compiled within a shorter time frame.

If producing accounts more frequently than on an annual basis is not appropriate, one course of action could be to shorten the time frame for preparing the financial statements.

[67] *The United Kingdom, Canada, Australia, New Zealand and Sweden. See Association of Chartered Certified Accountants, Consolidated government accounts: How are they used?, June 2015.*

The examples of the United Kingdom and New Zealand

At the forefront of government accounting developments is New Zealand, which in the early 1990s became the first State to publish consolidated accounts. It publishes its financial statements within three months of the balance sheet date.

In the United Kingdom, HM Treasury (HMT) has included a reduction in the time frame for preparing the financial statements in its programme of work. Since publication of the first consolidated Whole of Government Accounts (WGA) for 2009/2010, HMT has cut the time frame between the balance sheet date and publication of the financial statements to five months. Although it took 15 months to produce the British public accounts for the financial year ending 31 March 2013, HMT calculated it would be able to reduce the time taken to nine months for the financial year 2014/2015.

The survey by the British Association of Chartered Certified Accountants notes that public trust in the information provided in government accounts requires them to be published in a user-friendly format as soon as possible after the balance sheet date.

Financial statements provide a long-term view of the economy that could be supplemented by conducting and publishing sustainability projections.

The adoption of accrual accounting identifies the State's net position, *i.e.* the difference between its assets and its liabilities, as well as future liabilities[68]. These are crucial factors in any assessment of the sustainability of its financial trajectory.

[68] *In France, pension commitments for civil servants are not recorded as liabilities but as off-balance-sheet items. Leaving aside the sometimes substantial variations in the sum involved, following the changes in the discount rates used, the magnitude of the commitments is, as in the case of the United Kingdom, close to that of the financial debt.*

On a smaller scale, financial services should be able to provide assessments of public policy sustainability, especially in the light of demographic trends.

The example of the United Kingdom

As in the United States, the consolidated financial statements are part of a more extensive report that contains the accounts, a report on the accounts and the audit opinion from the NAO.

Conversely, no sustainability projection is presented, unlike in the United States.

The balance sheet structure, as it appears in the 2013-2014 accounts, is of a financial position with a negative net worth: the difference between assets and liabilities "to be funded by future revenues" to quote the wording in the table, is -£1 347 billion, compared to -£1 186 billion in the prior year. Civil service pensions are recorded as liabilities, and make up 38% of the total under that heading, whereas the financial debt is close to 37%.

Source: Cour des Comptes

The example of the United States

The balance sheet structure shows a very negative net worth (total assets: US$2 968 billion; total liabilities: US$19 878 billion).

Assets cover only 15% of liabilities, compared to 50% in France. However, in addition to the financial debt, the boundary for liabilities in the United States includes pension liabilities for federal employees whereas the equivalent liabilities in France are off-balance-sheet items.

The coverage of the financial debt alone (*i.e.* excluding pension liabilities) is 25% in the United States, and 65% in France. The Citizen's Guide says that, in addition to the assets recorded on the balance sheet, the US Government has other resources, including natural resources, and the power to tax and set monetary policy – clearly this is a major difference between the USA and the individual position of the euro-area Member States.

The first few pages of the report on the financial statements presents a very short, jargon-free summary of the following key points:

- “Where We Are Now”: comparison of the financial report and the budget;
- “What Went Out and What Came In”: revenue and net cost in the financial year;
- “What We Own and What We Owe”: assets and liabilities;
- “Where We Are Headed”: projections for the next 75 years of receipts, spending and debt; assessment of the “fiscal gap” (funding requirement) over that time frame, assuming stabilisation of the debt-to-GDP ratio. The analysis also illustrates the cost of a 10-year and a 20-year delay in implementing the reforms (higher taxes, lower spending) needed to stabilise the ratio. The GAO does not audit that information, but it does publish another document (at a different time of the year) containing projections that are separate from the Government’s.

Source: Cour des Comptes

A broader consolidation boundary would provide a more comprehensive overview of government authorities’ actions.

Once the consolidation boundary has been defined, an effective consolidation process should be established to facilitate timely and reliable reporting by the consolidated entities. One of the challenges of consolidating government units is to eliminate inter-entity transactions and transfers.

The examples of the United Kingdom and New Zealand

In the United Kingdom, the consolidated set of financial statements relate to the “public sector”, defined as all bodies in the executive branch of government. This wide-ranging boundary includes 1 500 entities, including ministries; executive agencies; funds; entities governed by public law (including the Bank of England); and English, Northern Irish, Scottish and Welsh local government.

The example of Australia

The Australian public accounts present financial statements that consolidate all “state-controlled entities” (which number around 200) and also provide (disaggregated) sectoral information on the various sectors of the State:

- Central State (ministries and agencies);
- State-controlled non-financial corporations;
- State-controlled financial corporations (including the Reserve Bank of Australia).

Australia therefore uses the concept of “control” to determine the consolidation boundary of its financial statements. The concept of “control” is defined in Standard AASB 127 which lays down two non-cumulative consolidation criteria:

- “controlled entities” within the meaning of IAS 27 are consolidated;
- entities accountable to the Government and in which the Government has a residual financial interest in the net assets and liabilities are consolidated.

The Australian National University is outside the consolidation boundary, as are entities over which the Government has only modest influence.

Source: Cour des Comptes

The example of the United States

The consolidation boundary includes the Federal State, *i.e.* all entities in the executive branch of government:

- 24 major agencies (15 ministries and 9 federal agencies, including the National Aeronautics and Space Administration, NASA);
- 11 other significant entities (including the US Postal Service and independent administrative authorities (Federal Communications Commission, Securities Exchange Commission));
- 119 other entities (authorities, commissions, museums, various administrations) or funds.

Entities in the legislative and judicial branches are outside the boundary. Their exclusion would appear to have less to do with matters of principle (separation of powers) than with the absence of a requirement for entities in the legislative or judicial branches to compile accrual-based accounts because:

- despite this, they are within the reporting boundary for cash accounting in the budget;
- even though they are under no obligation, some of them nonetheless compile individual accruals-based accounts on a voluntary basis which are then consolidated with those of the executive branch (*e.g.* Library of Congress or the GAO itself).

Also outside the boundary are all tiers of local government (the federated States, counties, townships, etc.); their accounts are audited either by “State Comptrollers” (local equivalents of the GAO) in some States, or more usually by private audit firms. The standards body that draws up the accounting standards for the local public sector is separate from the federal body, which is unlikely to facilitate consolidation of a “government unit”-based boundary: local accounting standards are closer to business accounting standards than they are to the federal standards.

Finally, the report on the consolidated accounts also includes presentation of separate financial statements on the System of Social Insurance (SOSI), which includes assistance programmes (Social Security, Medicare, Railroad Retirement Board pensions, Coal Workers’ Pneumoconiosis) funded by earmarked taxes.

Source: Cour des Comptes

Table 5: Overview of consolidation methods in Australia, New Zealand and the United Kingdom

	Australia	New Zealand	United Kingdom
Benchmark standard	Standard IAS 27 on consolidation modified for the Australian public sector. IFRS accounting standards modified for the public sector.	According to the Public Finance Act: Modified NZ-GAAP and modified IFRS accounting standards (NZ-IFRS).	Standard IAS 27 on consolidation modified for the British public sector. IFRS accounting standards modified to the public sector, no exclusions (subject to UK-GAAP).
First consolidation	Financial year ending 30 June 1996	Financial year ending 30 June 1993	Financial year ending 31 March 2010
Consolidation boundary	Standard AASB127 lays down two non-cumulative criteria: control in accordance with IAS 27; OR dual criterion: entity accountable to the Government and in which the Government has a residual financial interest in the net assets and liabilities (2 700 consolidated entities). Two exceptions: National University/ entities in which the Australian Government's holding gives it little influence.	Standard NZ-IAS 27 defines control by reference to two cumulative criteria set out in IPSAS 6: the power to govern the financial and operating policies of the consolidated entity so as to obtain benefits from its activities. Exclusion: local entities and higher education establishments.	Two non-cumulative criteria: – the entity performs a public function; – its activity is funded wholly or partly by public funds (1 500 consolidated entities). Five exclusions pursuant to criteria that are in addition to those taken into account for the boundary of around £150 billion.
Harmonisation of benchmark standards	Harmonisation under AASB 1049 between IFRS standards, IAS27 as modified (AASB127) and the Australian accounting standards (AAS and GFS).	Harmonisation pursuant to the Public Finance Act between the modified IFRS standards and NZ-GAAP.	IFRS standards reinterpreted (except for local entities, public corporations, non-departmental public bodies or charities that use the UK-GAAP or related accounting framework).
Management of intra-group transactions	All balances and significant transactions between controlled entities are eliminated (no threshold).	Full elimination of intra-entity balances, transactions, revenues and charges (no threshold).	Threshold set: transactions with a value less than £1 million were not eliminated because there were too many of them (subject of NAO qualification).

Source: DGFiP, Comptes consolidés de l'État: étapes préalables [Preliminary steps towards consolidated government accounts], Seminar on the relevance of IPSAS and European accounting standards, Cour des Comptes, March 2013.

Accrual accounting is the prelude to adopting cost accounting that can optimise public policy management

The study conducted on behalf of the European Commission shows that accrual-based accounts are rarely used as a basis for cost accounting, despite the fact that "[c]ost accounting provides a basis for evaluating the cost of delivering government programmes and services and can be used to communicate the results of specific government operations. […]"

"Effective performance measurement systems have a critical role to play in supporting government policy-making and implementation. They must be designed and implemented so as to optimise the link between strategic planning, the subsequent delivery of services, and measurement in both financial and non-financial terms against budgets and overarching policy objectives."

The example of Sweden

In Sweden, the greater reliability of financial information following the adoption of accrual accounting acted as a basis for management-by-results. The resources allocated to a public service mission can now be weighed against performance. Thus, the accounting reform in Sweden served to shift the focus of financial management away from an input-driven system and towards result-based management with a clearer focus on outputs and outcomes.

Source: Cour des Comptes

A significant training drive is required in order to ensure that the indicators derived from accrual accounting are used by managers and politicians.

The survey by the British Association of Chartered Certified Accountants highlights the need to support users of accrual-based accounts.

The survey recommends improving the basic financial literacy of parliamentarians and government officials through induction and development programmes, supplemented with guidance from practising professionals. The survey recommends improving the usability and accessibility of the accounting information by simplifying the presentation of summary reports, delivering them on a more work-friendly schedule and making them more meaningful by incorporating more forward-looking information, including projected outcomes

The survey also recommends making more use of technology that allows summary information to be obtained more quickly and easily while, where necessary, providing the opportunity to drill down to more detailed information.

The example of the United States

The Governmental Accounting Standards Board (GASB) – the entity responsible for drawing up the accounting standards for the federated States and local governments – devotes a significant share of its activities to user training. When accrual accounting was adopted for local government and state accounts, the GASB published a series of practical guides in plain language for managers and politicians with no prior knowledge of accrual accounting. Instead of focusing on the preparation of financial statements, the guides explain the new information provided under accrual accounting to the accounts' users and therefore enable managers and politicians to include that information in the decision-making process.

Source: Cour des Comptes

The finance function must make a bigger contribution to the decision-making process in order to ensure the sustainability of public policies.

The study conducted on behalf of the European Commission on the implementation of accrual accounting in the public sector argues that “[t]he finance function must play a proactive role in providing key information that informs strategic, operational decisions, thereby earning a place at the decision-making table as an important business partner within the government entity.” Therefore, in order “[t]o provide this insight, the finance function should go beyond simply maintaining accounts and producing financial statements; it should be concerned with analysing financial data, assessing the cost of public services and offering practical interpretations on the meaning and relevance of financial information.”

The example of the United Kingdom

In the United Kingdom, the number of financial professionals increased from fewer than 1 000 in the early 1980s to now include over 9 000 qualified accountants and trainees across 50 central government departments and agencies. There is now financial expertise outside the financial ministries, in the operational side of government. Around 20% of finance professionals work outside the finance function. All departments now have a finance director on staff. Finance is no longer merely an administrative support function: only 10% of finance professionals work in transaction processing, and 30% in reporting and control. Some 60% of finance professionals contribute directly to the decision-making process and public policy evaluation.

Source: Cour des Comptes

Some stakeholders advocate roll-out of accrual budgeting on the ground that it would assist decision-making. Others are more circumspect.

Some stakeholders take the view that accrual accounting should be introduced in tandem with accrual budgeting. The principal argument in favour of introducing accrual budgeting is that it would provide better insight for decision-making by taking the long-term impact of government policies into consideration.

The example of Germany

At federal level and for most of the *Bundesländer*, managers have reservations about the adopting of accrual budgeting, and were satisfied with the "accrual accounting"-type changes made to cash accounting. The view is that using two different systems (*i.e.* accrual accounting and cash budgeting) is likely to result in errors and therefore does not square with the objective of improved public-sector management.

Source: Cour des comptes

RESPONSE
OF THE GOVERNMENT
CONCERNED

Addressee who did not respond

Prime Minister