

# CERTIFICATION OF CENTRAL GOVERNMENT'S FINANCIAL STATEMENTS - Fiscal year 2019

## Summary Report

The Central Government's financial statements and the Cour des comptes' certification document are attached to the draft budget review act for the past financial year.

These documents make it possible to ensure there is transparent information on the Central Government's financial situation, in order to properly inform the administration on its management, and Parliament, before it examines the budget review act. This year they have been submitted two weeks earlier than last year.

They are aimed, more broadly, at citizens, economic actors, and observers of public finances.

## Central Government's financial statements

In accordance with article 27 of the Constitutional Bylaw on Budget Acts (LOLF), since 2006 the Central Government has kept general accounts of its operations, based on rules which are no different to those applicable to companies, other than due to the specifics of the Central Government's activity.

The Central Government thus presents annual financial statements in a document titled «General Account of the Central Government» (Compte général de l'Etat), which includes a balance sheet, an income statement, a list of its main off-balance sheet commitments (made and received), and an explanatory annex.

As of 31 December, 2019, the above represents:

- €1,079 billion in assets, almost half of which are tangible assets, and a quarter are financial holdings;
- €2,116 billion in debts, €148 billion in provisions relating, essentially, to economic and social interventions by the State, and €76 billion in negative net cash;
- €4,439 billion in off-balance sheet commitments, half for civil and military pensions, and a quarter for guarantees made to third parties;
- €527 billion in gross expenses and €442 billion in gross income.

The loss for the year thus amounted to €85 billion, compared to €52 billion in 2018. Comparing net tax revenue for the financial year (€304 billion in 2019), its share stood at 28%, compared with 11% in 2006, which was the first financial year certified.

Net assets, which were strongly negative, amounted to - €1,370 billion at the end of 2019, i.e. four and a half years of tax revenue, against only two at the end of 2006.

# The Cour des comptes' position

Due to the progress the administration made in 2019, the Cour des comptes is able to lift parts of two qualifications formulated on the 2018 accounts, in particular for inventories and tangible fixed assets.

Number 5 of LOLF's article 58 entrusts the Cour des comptes with certifying the regularity, sincerity and accuracy of the State's accounts.

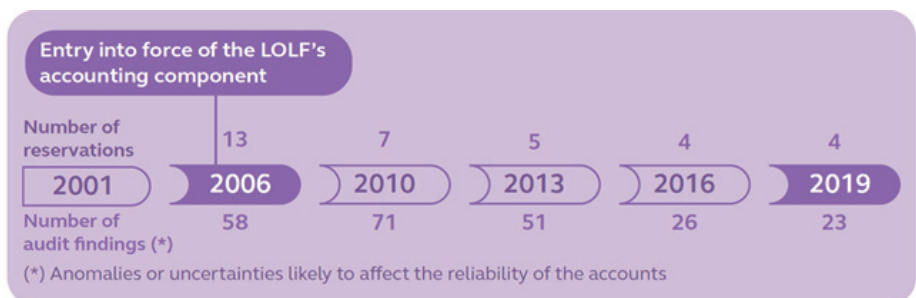
The certification is a written and reasoned opinion that the Cour des comptes gives under its own responsibility. It consists of gathering the elements necessary to obtain reasonable assurance on the accounts' compliance with the applicable rules and principles.

Professional financial auditing standards stipulate that an unqualified opinion cannot be expressed if significant difficulties are identified and not resolved after the checks are made.

The Cour des comptes presents the results of its checks in the form of a certification accompanied by qualifications, each of which groups together several auditing points, along with significant issues.

The Cour des comptes certifies that, with regard to the accounting rules and principles that apply to it, the general account of the State for the financial year ending 31 December, 2019 and closing on 20 April, 2020 is regular and truthful, and provides a faithful representation of the State's financial and assets situation, with four qualifications, all substantial, and which relate to the:

- general limitations in the scope of due diligences practices (qualification no. 1);
- misstatements with regards to military inventories and tangible assets (qualification no. 2);
- misstatements with regards to financial assets (qualification no. 3);
- misstatements with regards to Government expenses and income (qualification no. 4).



# The substantial qualifications with regard to the 2019 accounts

## QUALIFICATION No. 1 - General limitations in the scope of due diligences practices

In order to be able to give a reasoned opinion on the reliability of the Central Government's accounts, the Cour des comptes must collect necessary and sufficient evidence to that end. It must also assess the risk of significant errors in the accounts, in particular by assessing the administration's ability to prevent such errors from occurring or, failing this, to detect their occurrence and to correct their effects.

In a system as vast and complex as the Central Government, achieving these objectives is largely based on the existence of an efficient financial information system and on effective internal control, which depends on the process of establishing accounts and the possibility for the administration to justify them.

At the end of 2019, however, the Cour des comptes was still encountering significant difficulties in conducting some of its checks under satisfactory conditions. It was, in several cases, unable to rule on the merits and reliability of accounting records, due to the conditions for keeping general accounts, in the "Chorus" application, by means of which Central Government accounts are established, and due to the organisation and monitoring of ministerial internal control.

## QUALIFICATION No. 3 - Misstatements with regards to financial assets

The net value of the Central Government's financial fixed assets amounts to €359 billion. They include:

- 1,764 financial holdings, with a net value of €290 billion;
- receivables from these investments, to a net amount of €38 billion, and loans and advances to a net worth of €18 billion;
- funds without legal personality, which carry assets on behalf of the Central Government, to a net value of €11 billion, and other fixed assets to a net value of €2 billion.

In equity interests, the net worth of the 689 entities controlled by the Central Government amounted to €167 billion, representing one sixth of its total assets.

At the end of 2019, the Cour des comptes is unable to rule with reasonable assurance on the valuation of a significant part of the Central Government's financial assets, due to uncertainties or disagreements over the value of said assets.

## QUALIFICATION No. 2 - Misstatements with regards to military inventories and tangible assets

At the end of 2019, the Central Government's tangible assets mainly consisted of real estate stock (€52.2 billion), road infrastructure (€137 billion), infrastructure conceded to third parties, mainly motorways (€163.7 billion) and hydraulic structures (€48.4 billion), and military land, air and sea equipment in service (€39.7 billion) or in development (€21.3 billion).

It also includes inventories, with a net value of €28.3 billion (gross value of €37.6 billion), almost exclusively with the Armed Forces Ministry, around half of which are spare parts necessary for keeping military equipment in operational condition, and the rest being munitions and consumables necessary for their operation.

As of 31 December, 2019, significant difficulties remain, which also relate to the justification of the inventory, and to the valuation of the Central Government's military stocks and equipment as well as to the valuation of a significant part of its civil and military infrastructure.

## QUALIFICATION No. 4 - Misstatements with regards to Government expenses and income

The Central Government's gross expenses amounted to €527 billion, a quarter being remuneration of public officials, and a third being transfers for economic and social matters (grants, subsidies, etc.). Over the same period, the Central Government recorded €442 billion in gross revenues, two thirds of which came from five sources of taxation (value added tax, income tax, company tax, registration and stamp fees, and internal consumption tax on energy products).

At the end of 2019, shortcomings still affect the accounting control and recording of data relating to personnel expenses, intervention expenses, and sovereign income.

For personnel and intervention expenses, internal control does not yet allow a reliable assessment of the amounts to be accounted over the financial year.

For sovereign income, valuation of receivables from taxpayers, and the accounting treatment of certain tax transactions do not give a true picture of the State's rights and obligations.

# The progress of the Cour des comptes's checks

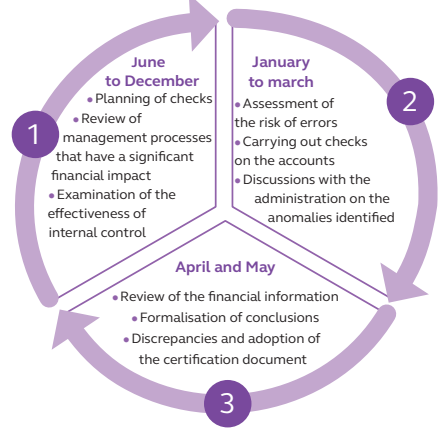
The process of certifying the accounts mainly involves:

- examination of audited accounts on the basis of audit criteria, the non-compliance of which constitutes an anomaly;
- assessment of the risk of errors in the accounts, and in the carrying out of appropriate checks;
- at all stages, taking into account the significant nature of the findings, the exercise of professional judgment, and critical thinking.

It is based in particular on:

- respect and implementation of professional standards which cover all the phases and aspects of an audit of financial statements;
- collection of evidence, that is, all information (supporting documents, accounting documents, work by third parties under certain conditions,

etc.) necessary to decide on the reliability of the accounts examined and the documentation of the work carried out.



## Perspectives

The 2019 audit of the Central Government's financial statements, and the findings to which this led are in line with those of previous years.

Sustained discussions between the Directorate General of Public Finance, and the Cour des comptes, in an approach to support the producer of the accounts, continued throughout 2019 and in the beginning of 2020. They notably took the form of an action plan aimed at simplifying the production of financial statements, and developing the uses of general Central Government accounting.

Work was completed according to methods adapted at the end of the year, to bring them to completion despite the context created by the health crisis.

The checks carried out on the Central Government's financial statements for the 2019 financial year confirm and clarify the main observations made previously:

- pursuit, by the administration, of improvement of the conditions for establishing the accounts

contributes overall to reinforcing their reliability and their conformity to the accounting standards in force;

- the methods for using the financial information systems required in Central Government's financial statements still pose a significant risk to the reliability of accounting records. The controls put in place are not enough to compensate for that;

- internal control continues to improve. However, its degree of maturity remains insufficient to prevent any significant anomaly in the related processes, and to guarantee control of certain risks likely to have an impact on the Central Government's financial statements.

Even if progress is still expected, general accounting data should already be used more to assess the Central Government's financial situation, to know its costs, and to better assess its results.

## Certification elsewhere in the world



Within the eurozone, France is one of the countries that certifies its Central Government's financial statements using accrual accounting.



The Whole-of-Government's financial statements of the United Kingdom are certified with four qualifications (qualified opinion).



The consolidated financial statements of the United States Federal Government are unable to be certified (disclaimer of opinion).

In addition to Central Government financial statements, the law entrusts the Cour des comptes with the task of certifying the accounts of the general social security system. At their request, the Cour des comptes certifies the accounts of the National Assembly and the Senate.

It also has several audit mandates for the accounts of international organisations.