

FEE

Preliminary steps for
good governance
French case



**Preliminary steps for good governance
French case**

- **I. An accounting reform for a better public accounting and financial information**
- **II. An accounting reform for a better public finances management**

An accounting reform for a better public accounting and financial information

A. Legal context (I)

- **key steps for transition to accrual based accounting**

- The convergence of the public establishment accounts to accrual accounting principles has taken place in 1980.
- Local authorities accounting rules converged between 1990 and 2000 to accrual accounting principles.
- Central government achieved the goal of convergence to accrual accounting principles with the adoption of the constitutional bylaw regarding budget procedures of 1 August 2001. The bylaw came fully into effect on 1 January 2006. Since this date central government accounts are presented under the accrual basis of accounting with accounting rules largely based on business practices except when differences are linked to the specific nature of the central government's activity.

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An accounting reform for a better public accounting and financial information

A. Legal context (II)

- **The transition to accrual accounting principle brings a greater requirement of quality for financial reporting**

- Under the provisions of article 27 of the constitutional bylaw, the central government accounts must be presented with compliance with the principles of lawfulness, faithfulness and a true and fair view. The constitutional council links these requirements to the principles of the Declaration of the human Rights of 1789.
- The law on “hospital, patient, health, territory” and the law on responsibility and competencies of universities state the same requirements
- The provisions of article 47-2 of constitutional revision of July 2008 extend this requirements to all public bodies.

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B. Implementation of new accounting standards (I)

- **Convergence of public accounting standards for public sector**

- The "Conseil de normalisation des comptes publics" (as Public Accounting Standards Board) was established by a budget amendment on 30th december 2008. The central government and agencies, local authorities and public local institutions, working for the central government, social security and affiliated agencies are all within the jurisdiction of the CNOCP. It was created to :

- set accounting standards of all entities with a non market activity and primarily funded by public funding including contributions ;
- ensure the convergence of accounting standards for all public entities

These accounting standards, which some in progress, are the same as those for private sector except for specific features of public sector

France is also an active participant to the works of the international public sector setter the IPSAS Board.

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B. Implementation of new accounting standards (II)

- **Public sector standards are in progress for specific public sector issues**

– Intervention expenses and liabilities are payments made by the central government as part of its economic and social regulation role.

– Service concession arrangements and public private partnership which involve an operator constructing or developing the asset to provide the public service or upgrading an existing asset.

– Heritage assets.

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C. A tighter internal control to ensure quality of accrual basis accounting

- **implementation of reference framework for accounting and financial internal control (reference to COSO and COBIT standards) :**
 - since 2004 for central government
 - gradually extended to its public establishments (universities...) and local authorities
- **rely on the set out of internal audit (reference to IIA standards)**
 - At the level of the central government and its establishments, each ministry has to establish an audit committee and an internal audit department
- **quality of the internal control and audit :**
 - to enhance good governance (risks committee, audit committee) ;
 - is the primarily level to achieve goal of the quality of accounts.

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D. The extension of the scope of certification for public accounts

- **Certification of public entity accounts, a confirmation of the reinforcement of the quality of accounts :**
 - certification of the central government accounts by the state audit office since 2006
 - certification of public establishments accounts by audit firms (universities) and soon hospital accounts
- **In this approach the state audit office has a key role which has been strengthened under the provisions of the Constitution :**
 - It has for mission to help Parliament and Government,
 - but also to give its opinion on the public establishment accounts. Its opinion relies on the audit firm's opinion.

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E. The strengthening of internal control relies on implementation of new IT system

- **The choice of IT system based on compliance with COBIT standards :**
 - the choice of an ERP system for central government and its main public establishments
 - in line with the rolling out of IT internal control standards
- **The rolling out of IT system**
 - Nearly achieved for the central government (implementation of Chorus started in 2008)
 - in progress for local authorities accounting (Hélios)

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F. Need of quality accounting for a better financial reporting

- **a quality accounting in order to meet the needs :**
 - of the parliament debates
 - of quality of national accounts (EUROSTAT...)
 - of better transparency of public accounts for citizens
 - for a greater knowledge of public assets
 - of improving the steering of public finances

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Preliminary steps for good governance

- **I. An accounting reform for a better public accounting and financial information**

- **II. An accounting reform for a better public finances management**

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An accounting reform for a better public finances management

- **A. A general purpose accounts and a budgetary accounting necessary to ensure quality of budgetary forecasts (I)**

– for the development of accounting systems designed to analyse the costs of different actions taken under programs

– for better budgetary forecasts : depreciation, impairment, off balance sheet commitments, provisions in order to improve budgetary forecasts

For central government, goals of the constitutional bylaw of 1 August 2001 are to :

- Enhance the parliament's power and level of financial information given (control of execution and investigation power...)
- give a tool in management choices
- achieve the goal of results and performance. The central government action is controlled and evaluated with quantified performance indicators and the annual report performance
- improve the management accountability. They now have to meet their objectives.

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An accounting reform for a better public finances management

• A. A general purpose accounts and a budgetary accounting necessary to ensure quality of budgetary forecasts (II)

- **a clearer budget presented by public policies** : the budget is no more presented by type of expenditure (operating, capital, intervention...) but by public policies (security, culture, health, justice...) which are called missions. The Parliament and the citizen have now a clearer picture of all the resources deployed to implement each government policy.
- **The missions correspond to the main government policies** : The Parliament votes on the budget by mission. A mission covers a number of programs. The parliament may alter the distribution of expenditure among the programs in a given mission
- **The programs define the framework of the implementation of public policies** : the programme is the parliamentary authorisation unit. It is the accountability of a single ministry and managed by a program co-ordinator appointed by the concerned ministry. Each program has its own specific objectives and performance targets.

This structure specific to the central government applies to its public establishments when they are operators of its public policies.

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• B. A quality general purpose accounts necessary for a medium-term consolidation of public accounts

- a consolidation at medium term with a scope reduced to central governments and its operators
- the question of the relevance and the feasibility of a consolidation at long term with a scope extended to social organisms and local authorities entities considering their constitutional principle of autonomy and the social security status (mainly private)
- the conditions to be met for consolidation exercise are the ending of convergence accounting standards for whole public sector and the tuning of IT system.

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An accounting reform for a better public finances management

- **C. High quality of general purpose accounts in order to ensure comparability between governments**

- The convergence of accounting standards for public sector at European level would make international comparisons between governments easier in a context of “budgetary crisis” may be envisaged.

- The general purpose accounts, a tool for an efficient steering of the public finances at European level