DIRECTION GÉNÉRALE DES FINANCES PUBLIQUES

Switch to accruals accounting French experience

AIST seminar

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MINISTÈRE DE L'ÉCONOMIE ET DES FINANCES

- Introduction: goals of the accounting reform
- Choosing the accounting standards
- Drafting the opening balance sheet
- Making financial statements richer and more reliable
- Implementing the information system CHORUS
- Financial statements as of 31/12/2013
- Conclusions et perspectives

Introduction: goals of the accounting reform

- France embarked in a significant reform starting with the Organic Law on Finance in 2001.

=> Objective of accounting quality recorded in the Constitution since 2008

Why?

In order to:

- Better manage the public finance for the transparency of the state's financial situation;
- Better know and manage the state's assets;
- Better know the current and future liabilities (accruals, provisions...)
- Secure the financial procedures.

Accounting reform: roadmap

Law is passed in Parliament

Drafting the accounting standards

1st certification issued by the Court of Auditors (with 13 reservations)

End of SAP system implementation with the accounting switch

2001 | **2002-2003** | **2004-2005** | **2006** | **2007** | **2008-2011** | **2012** | **2013-2014**

Preparation

(directions, data collection, internal control…)

Opening balance sheet

(following the logic of the roadmap)

Implementation of a new IS system (SAP system)

More stable IS and less reservations (5 reservations)

Key phases in preparing for accounting reform

4 years for preparing the accounting reform: a system within the Ministry of Finance

2001-2004

- issuing the accounting standards
- preparation work for the opening balance sheet

2004-2006

- instructions for accounting standards,
- drafting the opening balance sheet,
- making reliable the control environment,
- formalization of procedures,
- adaptation of IS

Choosing the accounting standards for the public sector

Guiding principles of the Organic Law on Finance (Fr. LOLF)

- Public sector accounting relies on the principle of rights and obligations
- The rules applicable to general State's accounting differ from those applicable in private companies only in terms of the specificity of its role and scope:

⇒ Rules directly transposable for government activities from the private sector;

⇒ Necessity to adapt the rules from the private sector in order to issue specific standards: e.g. for the role of social and economic regulator the state has.

Choosing the accounting standards for the public sector

Specific features of the public sector

- **Transfer fees** that fall under the state's role of economic and social regulator: operations without direct compensation
- **Intangible assets** related to fiscal sovereignty (tax-raising right, power to approve or limit the occupation, or use of public domain)
- **Public pensions system** – consequences for the assets and liabilities of the system
- **Consolidation**: is this a control criterion for the definition of the respective scope
- **Products – significantly independent** from charges.
- **Necessary link** between accounting and budgetary results

Preparation of the opening balance sheet in 2006

The drafting of the opening balance sheet 2006 (Fr. BO) required as input accounting elements as if the new standards had already been in place:

– Mapping of the activities run by the state,

– Centralized and organized workflows (ministry, program, accountant)

– Asset management

– involvement of all staff from the financial circuit

– application of the new standards according to the best available information,

– Transparency: information provided in the annex of the accounts with respect to the choices made within the roadmap and multi-annual increase in reliability.

Preparation of the opening balance sheet in 2006

In drafting the opening balance sheet, the approach was to start from relevant available data:

➔ the most important positions were, as much as possible, exhaustively delineated, i.e. all assets or operations were listed and apprised, e.g. real estate properties, means of transport and transport equipment, weaponry, road infrastructure or the accrued charges;

➔ for other positions, data collection was partial (limited to some ministries reckoned relevant for their financial activity), e.g. military equipment, software, technical means and equipment, stocks or provisions;

➔ non relevant positions were not included in the 2006 inventory. Data on these positions were collected, if possible, from the already existing data on budgetary flows, e.g. furniture, computer equipment or other types of equipment.

Preparation of the opening balance sheet in 2006

➔ **In specific cases, global or statistical data were used to assess the impact on the opening balance sheet,** e.g. assets under constructions for military hardware operations, road infrastructure, advance payments of corporate taxes, expected receivables depreciation (on taxes).

➔**Some positions were difficult to be mapped and assessed and could not be entered in the opening balance sheet, because of lack of available data or lack of precise legislative provisions,** e.g. decommissioning or asbestos removal costs, some military assets and environmental liabilities (CO2 allowances).

Towards making the public balance sheet richer and more reliable

⌦ This was done in the 2007 financial year when data were reprocessed due to the change in accounting methods, to the broadening of scope and to error corrections:

➔**On fixed liabilities,** improvements in terms of data reliability were brought after a better estimate of costs of military actions and military equipment, and better cost estimate for road infrastructure;

➔ **On non financial liabilities,** there was a larger data collection on liabilities generated by VAT refund;

➔ **On the increase of provision funds for risks and liabilities related to money transfers** with the new integrated accounting method of the Complementary Debt Amortization Service (SAAD) of SNCF.

Towards making the public balance sheet richer and more reliable

In the following financial years, the public sector accounting reform continued supplying to its readers (citizens, MPs, managers…) **transparent, more reliable and richer accounts of the state's assets and liabilities.**

- Consequently, since 2008, according to the 1st RNCE standard, **the state's accounts include 3-year data.**

In 2009, there was a new turning point, when "pro forma" accounts were set up, according to standard 14 of RNCE, accounts which make possible the comparison of financial data over time.

- **Since 2009, the state's financial statements** give the possibility **to assess retrospectively** the impact of the changes of methods, of accounting estimates or of error corrections.

In the context of more stable international standards on concession operations, it is easier to assess the tangible assets:

- For the 2009 financial year, the assets under concession were of € 131 bn. and the non financial debt € 38 bn. The difference was recorded in the net statements.

Towards making the public balance sheet richer and more reliable

Since 2010, each year, this approach is continued and the state's financial assets become richer and more reliable:

➔ Following identification of processing errors (during controls, or internal/external audits);

➔ Following the change of estimate methods or of accounting methods generated by the changes made by RNCE (permanent working groups within CNoCP dedicated to the revision of RNCE).

⌦ **Several provisions were 1st applied on CGE 2013**

➔ provisions applicable to sectorial information, new standard 16;

➔ provisions applicable to concessions and partnerships, change of standard 6;

➔ provisions applicable to historical and cultural assets, new standard 17.

➔ provisions applicable to sectorial information, new standard 16.

➔⌦ The accounting reform that leads to a continuous improvement of the richness and reliability of the state's financial accounts was accompanied by a new structure IT tool.

Implementation of CHORUS information system

CHORUS is a software package of integrated management and its implementation had a multi-annual planning. CHORUS pertains to a global strategy aimed at modernizing the state information system (SIFE).

This modernization means making available to all staff in the state administration (authorizing officers and accountants) a common and integrated tool for financial, budgetary and accounting management.

CHORUS can meet LOLF requirements through:

– conformity with accounting standards,

- support for the closure of the accounts and more rapid generation of detailed financial information,

– generation of richer financial statements,

– improvement of performance management,

– more traceable operations.

Implementation of CHORUS information system

CHORUS has 2 main goals:

– **HR**: almost 20,000 new users were targeted from all over the country, coming from different organizational contexts, with different jobs and approaches to tools;

– **functional level** new functions to manage expenses and income made available by the different domains covered by CHORUS and by general accounting;

– **technical level**, with the new interfaces still to be built in order to merge the multiple ministry applications with CHORUS, taking over the significant data quantity available in the systems and make parameter adjustments for a merging of services within the required deadlines.

CHORUS is a real tool for the improvement of public finance management, but continues to be a big challenge when it comes to the training of the number of users and their diversity.

Implementation of CHORUS information system

The State's financial activity:

➔ first limited to some expenditure programs (2008-2009), then enlarged to real estate assets (2009),

➔this tool was spread progressively, in waves, to include all expenditure and the state's fixed assets (2010-2011),

➔in 2011, almost all programs are monitored in CHORUS with 24,000 users spread in all ministries.

➔ since the 1st of January 2012, all state's accounts (general accounting, budgetary accounting and cost analysis) have been kept in CHORUS.

This single software package replaced several applications with which assets and liabilities accounting was done before, as well as other tools and applications used for financial management in ministries.

Some "professional" software applications are still in place (for the management of tax income, financial debt, cash flows or salaries), **but they have a common interface with CHORUS that thus takes in all accounting and financial information of the state.**

Financial statements as of 31/12/2013

The state's financial statements are made up of 4 elements that meet this objective (according to the 1st RNCE standard):

- the balance sheet,
- the profit and loss account that provides information on 3 main categories: a table for net liabilities, a table with net earnings (taxes, fines, etc.) and a table showing the balance of the transactions performed during the financial year.
- the cash flow table,
- an annex that explains and brings additional information to the financial statements. **The annex is part of the financial statements.**

The state's balance sheet

The state does not have share capital and its net equity does not increase or depreciate according to the capital brought by its shareholders.

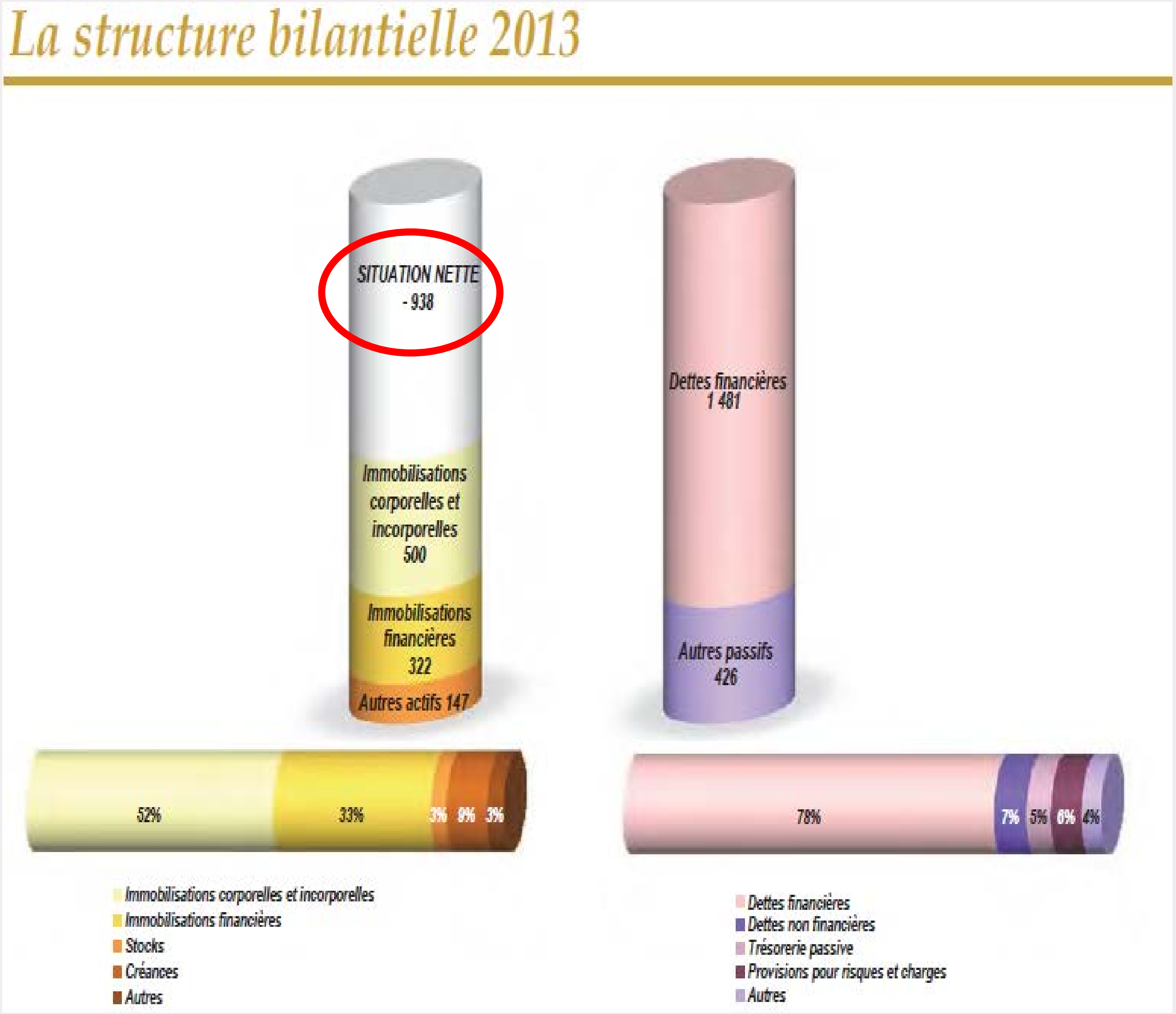
Assets are generally defined as a person's **rights and obligations**. The financial statement is the financial and accounting translation of the notion of assets.

⌦ **For a faithful image of the assets and of the financial situation of a state, the scope of its rights and obligations should be defined, identified, assessed and then processed in accounting** according to the categories of assets and liabilities.

The balance sheet appears as a table where the net equity is seen as the difference between:

- **assets:** the listing and assessment of all elements that have **positive economic value for the state (fixed assets, debts to be collected…);**
- **and liabilities:** the listing and assessment of **all commitments and obligations the state has (debts, provisions for risks and advance payments…).**

Key figures for the 2013 balance sheet



The net equity in 2013:

€ 938 bn.

NB: it is € 46bn. less than in 2012 because the marketable debt was on the increase which was not outmatched by an increase in assets.

The state's profit and loss account

Companies measure their performance relating it to their expenditures and their proceeds.

For the state, proceeds do not come essentially from the sale of goods and services produced by the activities that engendered the expenditures.

The proceeds are – to a great extent – independent from expenditures and – to a great extent – not impacted by the first category.

⌧ The profit and loss account is made up of three tables:

- **the table of net liabilities** split in categories according to their type (all liabilities and proceeds different from taxes, fines etc.), and which make up the total for net liabilities not covered by the proceeds in the respective financial year;
- **the table of net earnings** comprising different categories of proceeds (fiscal proceeds and others), it shows the proceeds for the respective financial year;
- **and the table with the balance for that financial year** which is the result for the two previous tables between the net liabilities and the net earnings.

The balance for the operations performed during the financial year is thus the accounting result of the state, and it is reconciled with the result of the budgetary accounting in an intermediary table.

Remark: as opposed to companies, the analysis of a 1 year result cannot be done only from a performance point of view.

Key figures for the 2013 profit and loss account

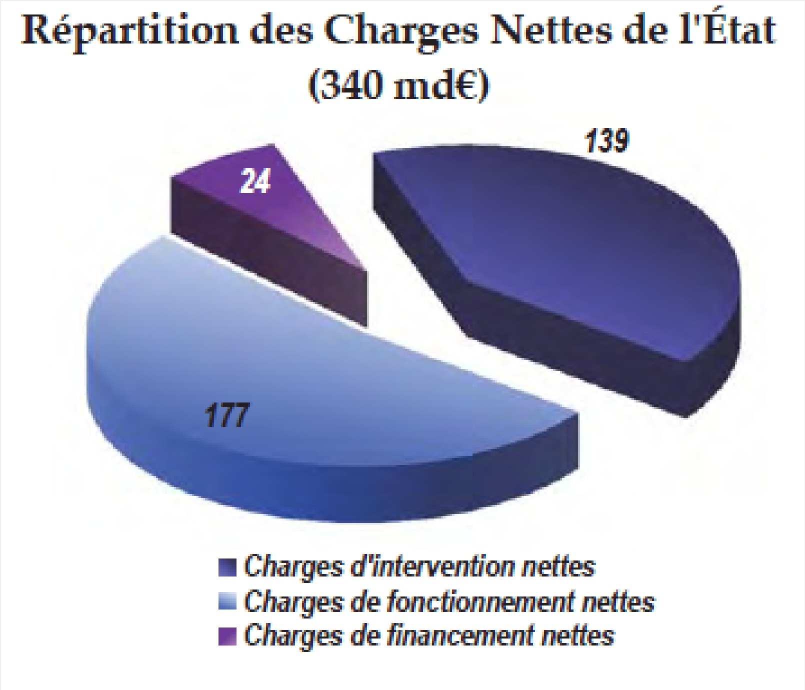
Attn.: in accrual accounting, in the profit and loss account , the state's liabilities, do not comprise the investments that go under assets in the balance sheet.

On the other hand, under liabilities, in general accounting, there are also the "calculated" liabilities:

provisions when there is a financial obligation the state has towards a 3rd party, obligation that stems from the previous year.

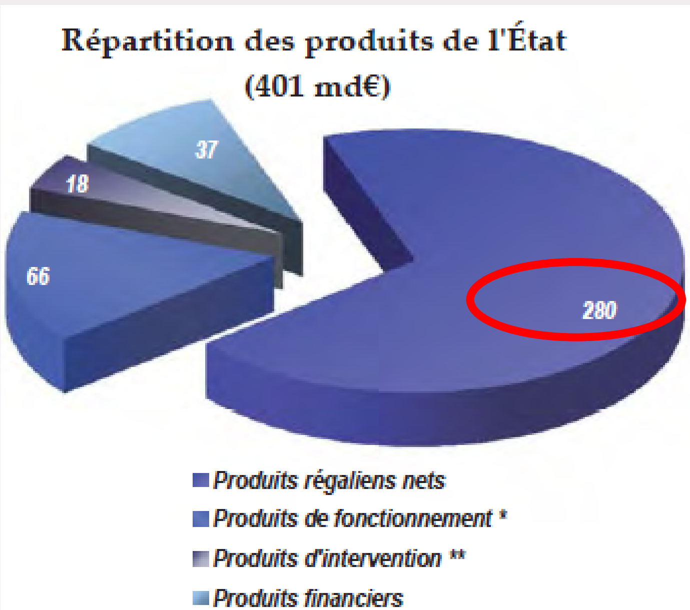
and **allowances for the amortization of assets** that annually translate into the cost of usage, of wear and tear for fixed assets, for estimated future investments and for their replacement at the end of their lifecycle (amortization period).

Net liabilities in 2013 were made up of operating expenses (52%), intervention expenses (41%), and financial expenses. (7%)



Key figures for the 2013 profit and loss account

The state's net earnings represent 70% of the state's proceeds.
Some of the net earnings were redirected to the EU (€ 21.8 bn.)



*: incluent les produits des prestations de service rendues au travers des budgets annexes, de reprises d'amortissements et de provisions et autres produits divers

**: Il s'agit essentiellement de participations de tiers à des dépenses d'intérêt public

The balance between the earnings and the expenses represents the budget outturn result for the state in 2013, which was: – € 59.5 bn.

This improved result – as compared to previous financial years can be explained by an increase in fiscal proceeds (+ €13.4 bn.) and a decrease in net expenses (-€ 23.5). The decrease in net expenses can be explained as a more limited impact of stock operations (allowances and provisions) as compared to 2012.

Tableau de détermination du solde des opérations de l'exercice

	2013	2012 retraité	2011 retraité
Charges de fonctionnement nettes (V)	**176 678**	173 022	166 783
Charges d'intervention nettes (VIII)	**138 605**	146 296	136 369
Charges financières nettes (XI)	**24 416**	43 888	46 240
CHARGES NETTES (XII)	339 699	363 206	349 392
Produits fiscaux nets (XIII)	**295 545**	282 084	276 820
Autres produits régaliens nets (XIV)	**6 464**	6 371	6 961
Ressources propres de l'Union européenne basées sur le revenu national brut et la taxe sur la valeur ajoutée (XV)	**-21 874**	-19 797	-18 051
PRODUITS REGALIENS NETS (XVI)	280 135	268 658	265 730
SOLDE DES OPERATIONS DE L'EXERCICE (XVI - XII)	-59 564	-94 547	-83 662

The state’s cash flow table

The cash flow table shows the manner in which treasury resources were used, as well as the evolution of the net cash. Specific feature: the state’s treasury is made up of assets and liabilities.

⌦ **It shows, for a given period the ins and outs, distributed per category:**

- ⌦ **cash flows** corresponding to the ins and outs for operating and intervention (but for investments) transactions and to other ins and outs such as the financial expenses and proceeds;
- ⌦ **cash flows related to investments** which correspond to ins and outs coming from **the purchase or the sale of fixed assets;**
- ⌦ **cash flows related to financing operations** which correspond to ins and outs coming **from external financing operations run by the state**

⬄ **This presentation facilitates the link between budgetary accounting and general accounting because it relates**

– the cash flows related to investments and those related to budgetary operations;

– the cash flows related to financing and those related to non-budgetary operations.

Key figures for the 2013 cash flows

(en md€)	2013	2012 Retraité	2011 Retraité
Flux de trésorerie liés à l'activité (I)	- 55,7	- 64,4	- 76,0
Flux de trésorerie liés aux opérations d'investissement (II)	- 17,9	- 22,3	- 13,1
Flux de trésorerie liés aux opérations de financement (III)	68,9	76,5	80,7
Flux de trésorerie nets non ventilés (IV)	0,1	- 1,0	- 1,9
Variation de trésorerie (V = I + II + III + IV = VII - VI)	- 4,5	- 11,2	- 10,3
Trésorerie en début de période (VI)	- 69,0	- 57,9	- 47,6
Trésorerie en fin de période (VII)	- 73,6	- 69,0	- 57,9

The net cash for the beginning and the end of a certain period is calculated as the difference between the "asset" cash and the "liability" cash.

Attn.: it is always negative because of the provisions made and recorded under the 'liability' category (public institutions, local governments…).

Annex to the state's general account

The annex is a standard part of the financial statements. It gives all the **necessary information** for the understanding of key figures, their evolution and it facilitates the analysis of some accounts.

The quality level of the annex should match that of the balance sheet and of the account for profits and losses.

The annex also has to be comprehensive and to specify the budget items as well as the profit and loss account,

The annex becomes more and more important, especially for the **off-balance-sheet commitments,**

The data from the other financial statements that can be found in the annex are numbered (cross-referencing).

The annex comprises an intermediary passage which identifies and explains the differences between budgetary and accruals accounting.

Conclusions and perspectives

The implementation of the accounting reform implied a rebuilding of the state's accounting with significant efforts for the inventory and assessment of assets, efforts that were carried out by all stakeholders: managers and accountants.

The implementation of such a project could not have taken place without a multi-annual planning approach that, since 2006, meant progressive enrichment of data collected on the state's assets and accounts.

And still, the objective of quality for the state's accounts cannot rely only on the quality of accounting standards. Risk management and internal and external audits are also mandatory.

Therefore, the state now has a solid system of the management of accounting risks that was inspired by good practices. The progress made is monitored in a report on internal control that is sent annually to the Parliament.

Conclusions and perspectives

Among key success factors for such an accounting reform, we can list:

- the appointment of a **project team** and of **people in charge** within an integrated approach covering all accounting jobs in the public sector, coordinated by the ministry of finance;
- an approach targeted on **quality accounting that defined key risks and new accounting procedures**;
- necessity of an **action plan** which should include the **priorities and the phases of the project;**
- anticipation of the work to be done for the **opening balance sheet**;
- the fundamental issue of the adaptation and evolution of **IS** for account keeping.

Thank you!

Should you have any question after the seminar, you can reach me at:

stephanie.ledoux@dgfip.finances.gouv.fr