



Public Expenditure Management Peer Assisted Learning Network

BAKU MEETING, November 2012

French experience in budgetary reforms





Summary

- 1. Experience of France in reforming public sector accounting and financial reporting**
- 2. Budgetary information disclosure in financial reporting**
- 3. Organization of training and certification of public sector accountants**



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1. Experience of France in reforming public sector accounting and financial reporting

1.1. LOLF : the French state accounting system

1.2. Make the public accounts reliable : why and how ?

1.3. What's next ? : CHORUS

2. Budgetary information disclosure in financial reporting

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1. Experience of France in reforming public sector accounting and financial reporting

1.1. LOLF : the French state accounting system

- **The principles of the statute (LOLF) voted in 2001 : modernizing rules created in 1959**
 - Reforming public accounts : a way to reform French State
 - A national context which was very favourable : political consensus

- **Three major goals :**
 - What kind of policy with public funds
 - How to increase the responsibility of top civil servants
 - How to improve the results of public policies

1. Experience of France in reforming public sector accounting and financial reporting

1.1. LOLF : the French state accounting system

The main innovations of this reform prevailing since January 2006

- More power for Parliament (preparation, vote, inspection of the budget)
- A budget easier to read (public policies appear as missions, programs, actions)
- Objectives and performance indicators in order to calculate results
- **3 visions of accounting**



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1.1. LOLF : the French state accounting system

Leaving a culture based on « more credits » for a culture of results

- Concept of « globalisation » : one budget / one program
- Concept of « fungibility » : ability to use staff credits for other kinds of expenses

- **More flexibility within a program**
- **Valid indicators accepted by all**
- **Periodic negotiation about means and objectives**

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Reform schedule

- **August 2001** : promulgation of the law
- **June 2002** : creation of a Ministry dedicated to the budgetary reform
- **January 2004** : French Parliament receives the first budget set up according to the reform
- **September 2004** : call for bids for new systems of information
- **June 2005** : Minister in charge of Budget also Minister of State reform
- **December 2005** : present systems of information approved
- **January 2006** : the reform is prevailing
- **January 2008** : beginning of the extension of CHORUS Budget (software used by the whole public administration)
- **January 2012** : accounts of the French State in CHORUS

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Report after 10 years

- Culture of results : 123 programs and less than 1.000 indicators can describe public policies
- State budget : a virtuous circle
- Costs of public policies : improved knowledge
- Managing the public agencies : obligation to respect the same rules as public administration
- Knowledge of accounting
- Power and responsibility of local administration
- Indicators for the administrative functions
- Fully use of CHORUS

Satisfaction

Expectations



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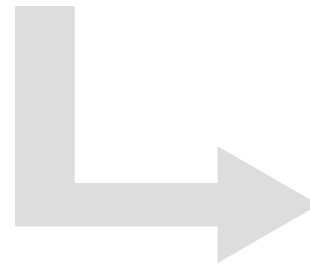
3. Organization of training and certification of public sector accountants

1. Experience of France in reforming public sector accounting and financial reporting

1.2. Make the public accounts reliable

Why expecting accounts to be reliable ?

- The accounting functions (information, decision making, checking)
- The law (art.27, art. 30 of the LOLF, etc.)
- The accounting principles (regularity, sincerity, prudence, non compensation...)



**Accounting
quality
required**

1. Experience of France in reforming public sector accounting and financial reporting

1.2. Make the public accounts reliable

Building public accounting standards adapted to specific features of French State

- **3 major sets of standards :**

- The French chart of accounts
- The International Public Sector Accounting Standards laid down by the International Federation of Accountants (IFAC)
- The works of the International Accounting Standard Board (IASB)

→ **A conceptual framework composed by 16 accounting standards and a glossary**

1. Experience of France in reforming public sector accounting and financial reporting

1.2. Make the public accounts reliable

Building public accounting standards adapted to specific features of French State

- The Constitutional law stipulates that the accounting rules for the central government are the same as those for business, except when differences are warranted by the specific nature of the central government's activity.
- Determining which business accounting rules are directly applicable to central government, which rules need to be adapted to specific features of its activities and which rules need to be created to account for transactions that are not covered by business accounting standards

Example : there is a major difference from business accounting, since Article 27 stipulates that the “central government’s financial statements must be compliant and faithfully present a true and fair view of its net worth and its financial position”, with no reference to profit or loss

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1.2. Make the public accounts reliable

French accounting standards in 2012

- 1 – FINANCIAL STATEMENTS
- 2 – EXPENSES
- 3 – SOVEREIGN REVENUES
- 4 – OPERATING REVENUES, INTERVENTION REVENUES AND FINANCIAL REVENUES
- 5 – INTANGIBLE ASSETS
- 6 – TANGIBLES ASSETS
- 7 – FINANCIAL ASSETS
- 8 – INVENTORIES
- 9 – CURRENT RECEIVABLES
- 10 – CENTRAL GOVERNMENT CASH POSITION COMPONENTS
- 11 – FINANCIAL DEBTS AND DERIVATIVES FINANCIAL INSTRUMENTS
- 12 – NON-FINANCIAL LIABILITIES
- 13 – COMMITMENTS TO BE DISCLOSED IN THE NOTES TO THE FINANCIAL STATEMENTS
- 14 – ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS
- 15 – EVENTS AFTER THE REPORTING DATE
- 16 – SEGMENT REPORTING

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1.2. Make the public accounts reliable

Adapting the accounting standards for French State

« IPSAS are a kind of ideal »

France had to adapt « French standards »

Example :

According to the IPSAS, 5 years can be allowed before the new standards are active.

French State decided not to allow such a deadline, but a quick reform for a better support to this change.

1. Experience of France in reforming public sector accounting and financial reporting

1.2. Make the public accounts reliable

Adapting the accounting standards for French State

Net Worth, Financial Position, Net Assets/Equity, Commitments :

Special features of the state :

- Extreme diversity and numbers of central government rights and obligations and retaining only elements that have a significant impact on its financial position
- No initial capital amount (since there is no initial start date)
- Measurement of assets with a long economic life raises special problems.
- The very notion of asset, as used in business accounting, does not adequately account for the central government's circumstances, which include the very special "intangible asset" of sovereignty, and its corollary, the right to levy taxes.

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Adapting the accounting standards for French State

Samples of the French standards

Recognition Rules for Assets

- Assets are recorded in the financial statements for the year in which the government acquires control over the future economic benefits or service potential. Control is usually based on a right (ownership or right of use).
- **However, ownership is not enough to establish control → control of the goods is assessed in this case according to the conditions of use : power to decide on use, responsibilities, expenses and risks related to this power**

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Recognition Rules for liabilities

3 cumulative conditions required :

- the Central Government has an obligation towards another party arising during the current or an earlier reporting period ;
- it is certain or probable that an outflow of resources will be necessary to settle the obligation towards the other party ;
- the amount of the obligation can be estimated reliably.



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1.3. What's next ? CHORUS

CHORUS : the ERP (Enterprise Resource Planning) that will fulfill the LOLF

- Compliance with the accounting standards;
- Inventory easier;
- Supervision;
- Ability to audit the accounts;
- Information disclosure.

The whole accounts of France have been under CHORUS since January 2012 1st

1. Experience of France in reforming public sector accounting and financial reporting

1.3. What's next ? CHORUS

Now, the priorities are :

- The staff must improve his use of CHORUS
- The central administration must provide instructions to help the staff
- How to correct malfunctions and then how to avoid them
- How to check and how to adjust the accounts with CHORUS

In the short term :

- Inventory and the next balance sheet
- Quality of the accounting information

Later :

- Organisation of the local administration
- Public sector accountant : a new job



Summary

2. Budgetary information disclosure in financial reporting

2.1. Periodic financial statements

2.2. Consolidation of financial reporting

2.3. How is this process automated through the IT system

2. Budgetary information disclosure in financial reporting

2.1. Periodic financial statements

The objectives

- **To ensure a correct management of the budget by State authorities**
 - Situation of the sovereign revenues
 - Situation of the expenses

- **To provide a periodic information for supervision authorities**
 - Cour des Comptes
 - Parliament

2. Budgetary information disclosure in financial reporting

2.1. Periodic financial statements

- **A weekly financial situation :**

- every Friday
- confidential information (only for Government)

- **Monthly financial situations :**

- accounts at the end of the month
- public diffusion (Parliament, Cour des Comptes, general audience)

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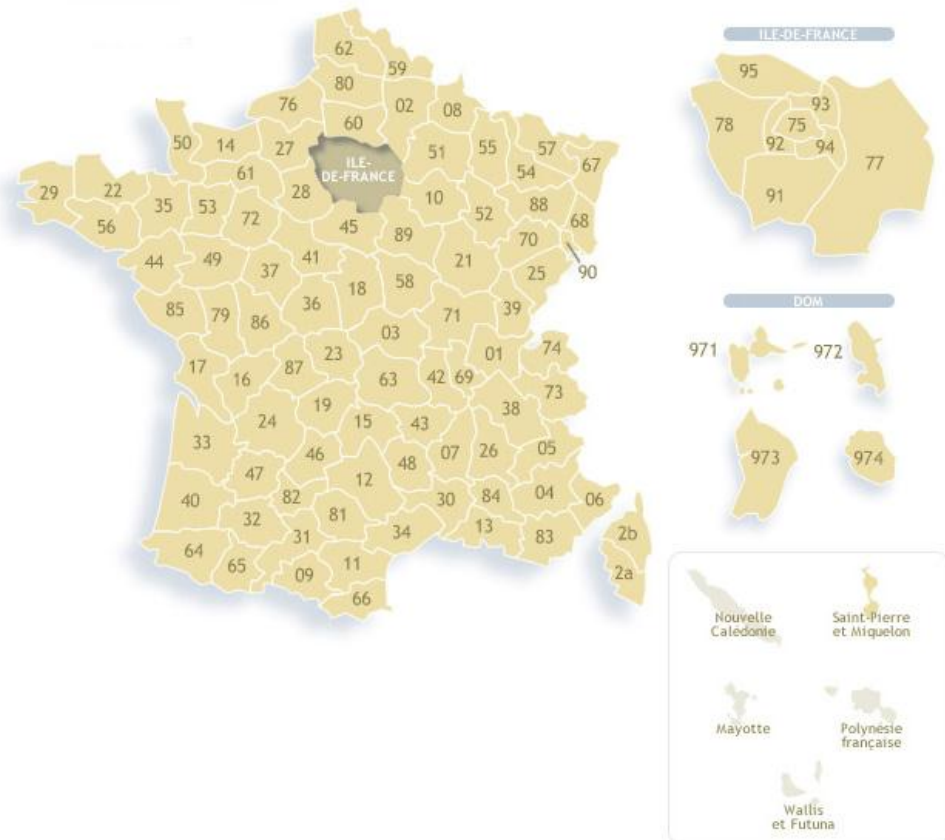
2. Budgetary information disclosure in financial reporting

2.2. Consolidation of financial reporting

The French financial reporting is based upon a centralization of accounting operations

3 major contributors

- Central Administration
- Central Accountants
- Local Accountants



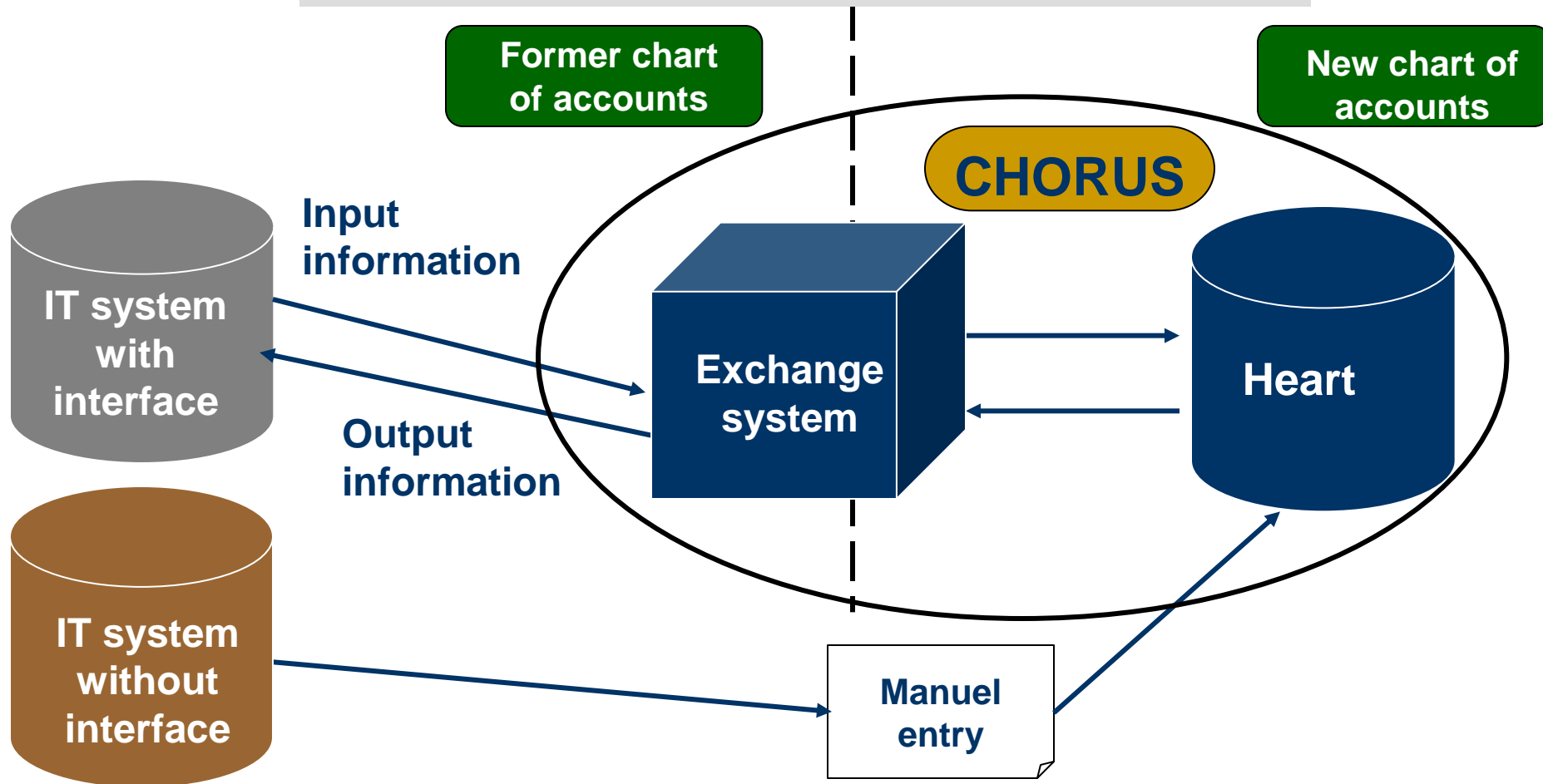
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2. Budgetary information disclosure in financial reporting

2.3. How is the process automated through the IT system





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3. **Organization of training and certification of public sector accountants**

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Types of public sector accountants

- Principal accountants
- Secondary accountants

Training of sector accountants

- National Public Finance School
 - ♦ Training unexperienced staff (initial training)
 - ♦ Training experienced staff (internal promotion)
- Building a new training according to CHORUS

Appointment of public sector accountants

- Taking the oath before supervision authority
- Public sector accountant ► Personal and financial responsibility
 - deposit / guarantee



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Thank you