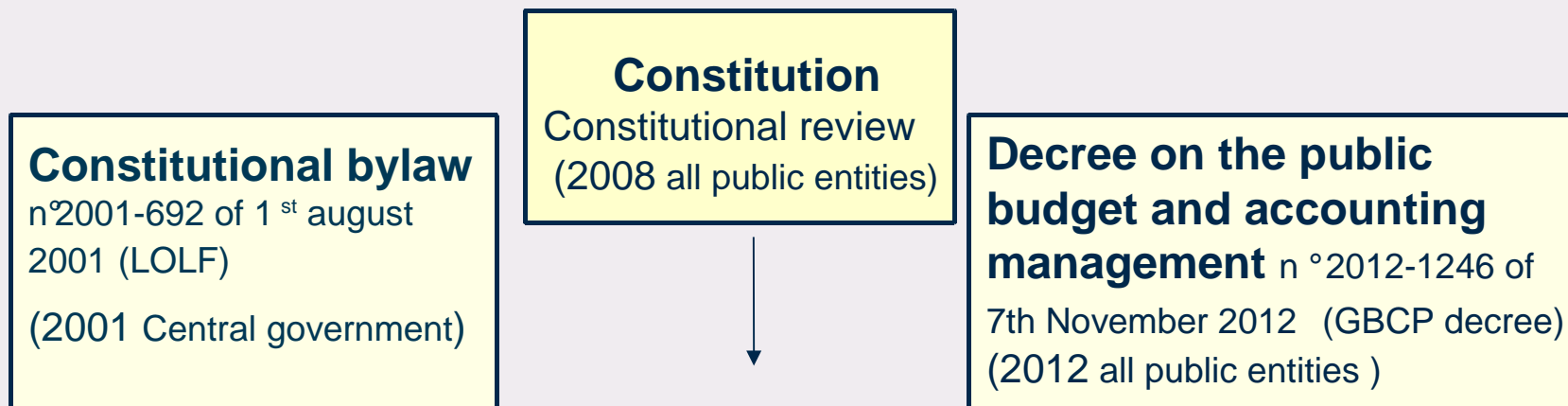


Introduction of accruals accounting in France

**Focus on the extent to which
standards tackle the key
challenges facing accountants**

Legal framework of the accounting reform in France



Key issue: accounting quality



The justification of the use of public funds is a democratic imperative

France is fully part of the process of strengthening the requirements for budgetary frameworks set by the EU Directive 2011/85 / EU.

Principles and characteristics of public accounting

The key principles of public accounting are founded on the constitution bylaw for the French central government and the decree n°2012-1246 of 7th November 2012 on the public budget and accounting management (GBCP decree) for all public entities.

A three-dimensional public accounting

a budget accounting based on cash basis,

an accrual accounting,

a cost analysis accounting.

The rules applicable to public entities

only differ from those applicable to companies in terms of the specific nature of public action.

Accounts must be lawful, faithful and give a true and fair view of entity's financial situation.

The key issue of this reform: the accounting quality

Accounts are established using permanent methods, based on reliable, understandable and relevant accounting records.

Three pillars in order to increase accounting quality:

- ⇒ **Convergent and harmonised accounting standards;**
- ⇒ **Internal control and internal audit systems** ensuring risk control;
- ⇒ An **external audit** by an independent body (certification) giving reasonable assurance on the reliability of the accounts.

Principles of the accounting convergence

The convergence of accounting standards includes two main axes:

⇒ **Convergence between public entities and companies.**

In France, the rules applicable to public entities only differ from those applicable to companies in terms of the specific nature of public action.

⇒ **Convergence within public entities.**

General accounting standardisation is an iterative due process, leading to:

- Central government accounting standards (13 standards in 2004 ; 19 currently)
- Public entities accounting standards (which refers to central government accounting standards while considering the specific action of public entities)
- Work in progress for local public sector's entities (local authorities, local public entities and hospitals).

Accrual accounting implementation for the central government

It implies to :

- ⇒ **Anchor in law** that public accounting is an accrual based system (Constitutional bylaw enacted in 2001, applicable since 2006)
- ⇒ Forecast the **time-phased implementation** (2001-2012) and, define a **team dedicated** to the opening balance sheet (2001-2006)
- ⇒ **Train** the staff (since 2004)
- ⇒ Elaborate convergent and suitable **standards** (central government accounting standards, first publication in 2004)
- ⇒ Develop an **integrated computer system** compliant with accrual accounting (2012)
- ⇒ Enhance a **successful dialogue** between accounting officer and auditors (Central government accounts are certified since 2006)

Accounting standardisation, a constant research of improvement and deepening

Overall issues resulting of the specific nature of public action

**Definition of assets and liabilities
Rights and obligations related to sovereignty
Determination of the obligating event**

Assets

- ⇒ Comprehensive stocktaking, improvement of their reliability, recognition's criteria
- ⇒ Standards' improvement as for «Tangible assets» and «Intangible assets»; creation of dedicated standards on «Heritage assets» or «Contracts for the provision of public service»
- ⇒ Definition of suitable and relevant measurement methods

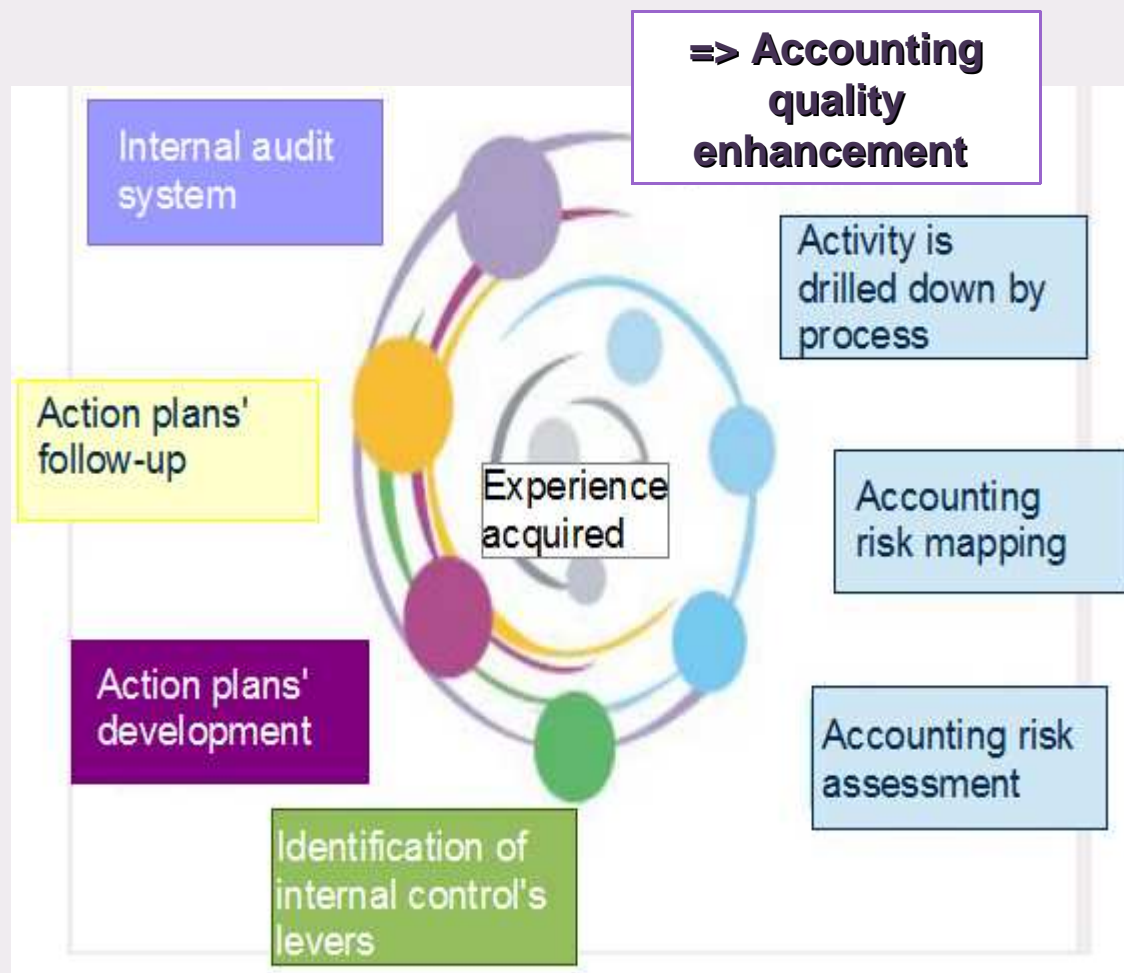
Intervention expenses

- ⇒ Standard improvement (expenses)
- ⇒ Determination of the scope and definition of the obligating event (eligibility criteria)
- ⇒ Display (recognition of expenses) or disclosure in the notes (commitments) ?

The risk control system, an upward spiral in order to increase accounting quality

The **internal control system** is a process which aims to **control the risks**. It's designed to provide "reasonable assurance" regarding the achievement of objectives.

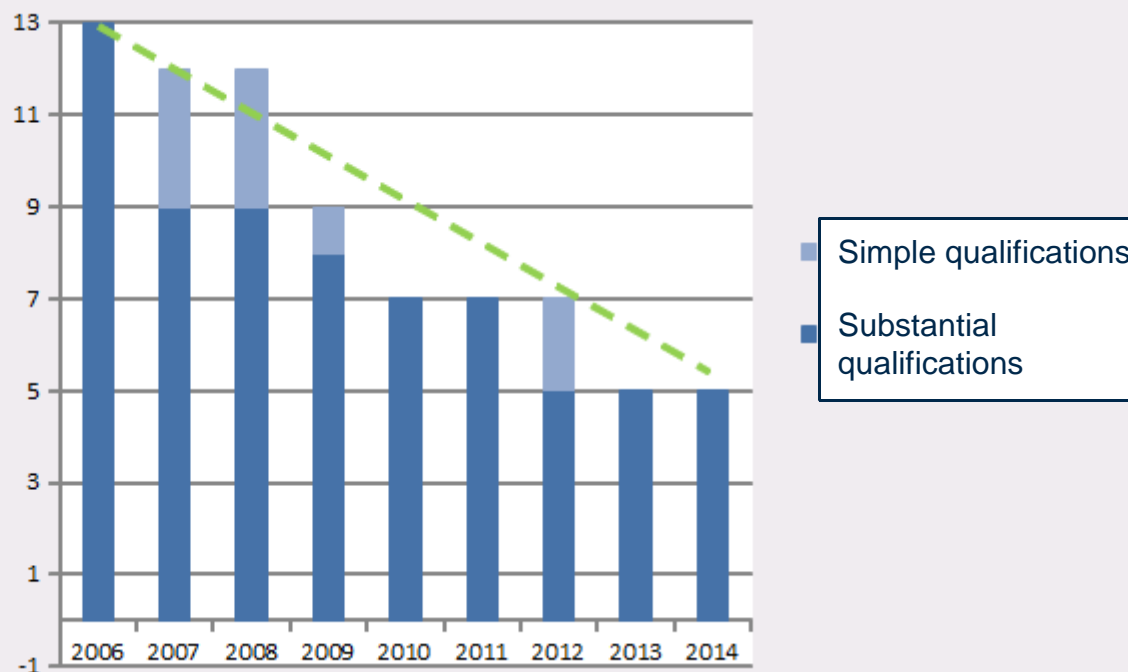
The internal audit system provides independent assurance that organisation's risk management, governance and internal control processes are operating effectively.



Certification of central government's accounts

Central government's accounts are certified since 2006, according to the accounting standards and the audit standards.

Decrease of certification qualifications' number



What about certification of other public sector entities ?

Public entities

(national public bodies)

Theirs accounts must be certified:

- when consolidated accounts are established or,
- when required by law (ex: universities);

- when chosen by the entity.

Local public sector entities

Since 2014, as required by law, **hospitals'** accounts must be certified (according to a financial threshold).

=> 70% of financial issues of the hospitals' sector.

The certification process is planned in three waves (in 2014: 31 hospitals; in 2015: 95; in 2016: 24).

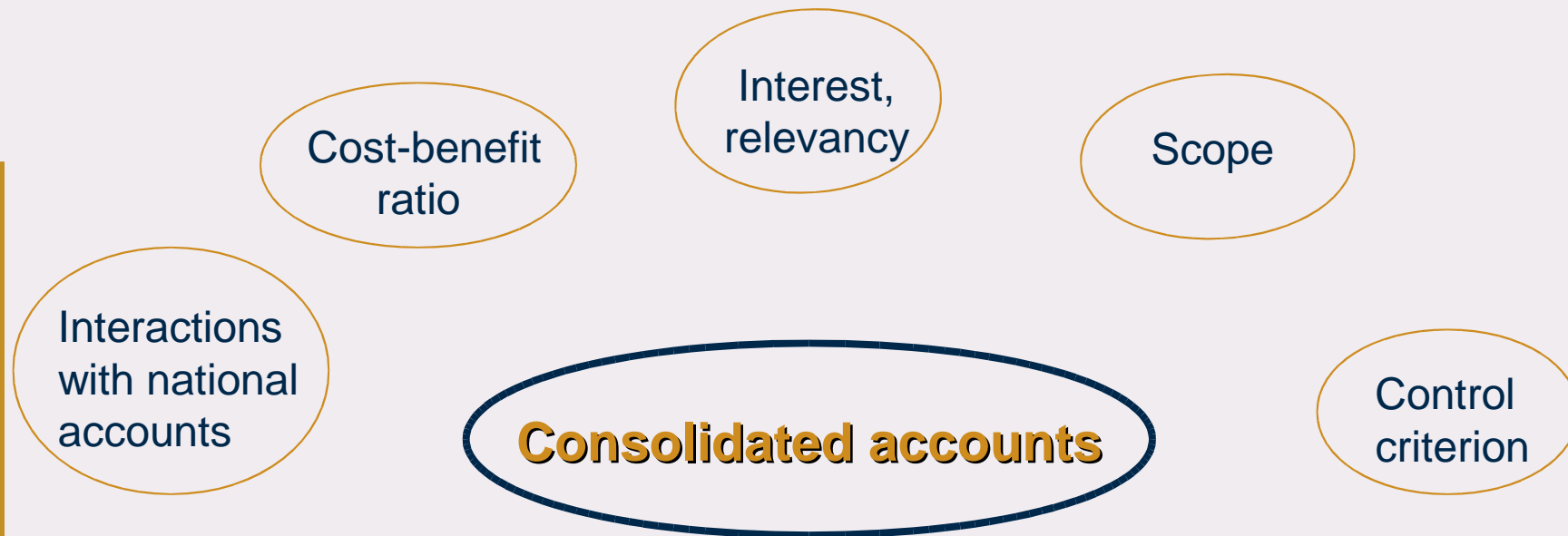
Since 2015 **local authorities** are induced to establish certified accounts.

An experimentation will be engaged for voluntary entities.

Feed back on certification

	Central government	Public entities (national public bodies)	Hospitals
How many entities are concerned ?	1	160	150 (3 waves)
How many qualifications ? (2014)	5	50 % without qualifications 36 % (1 to 2 qualifications)	51% without qualifications 41 % (1 to 3 qualifications)
What are the qualifications ?	-Integrated information system; -Internal control and internal audit; -Sovereign revenues -Assets and liabilities of the ministry of defence; -Financial assets.	-Property, other assets and equity; -Research contracts; -social liabilities/ social commitments.	-Property, other assets; -Revenues cycle.

Tomorrow's challenges



Essential prerequisite: harmonised accounting standards

Thank you very much for your attention.

