



VISIT TO FRENCH MINISTRY OF ECONOMY AND FINANCES

24th – 27th June 2013

***ACCRUAL ACCOUNTING IMPLEMENTATION
IN FRENCH GOVERNMENT***



SCOPE OF VISIT

	Scope
1.	French Accounting Reform.
2.	Change management.
3.	Presentation of France financial statements.
4.	Property Plant and Equipment.
5.	Lands and Building.
6.	Government Standard Setting in France.
7.	Overview of France's Accounting System.



LESSON LEARNED

1

French Accounting Reform

2

**Approach on Implementation
of Accounting Standards**

3

Information System

4

Financial Statement



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FRANCE PUBLIC SECTOR STRUCTURE

France public sector accounting practices is divided into two (2) broad categories:

Central Government (State of France)

- Ministries
- Equity value of participation of entities

Hospitals

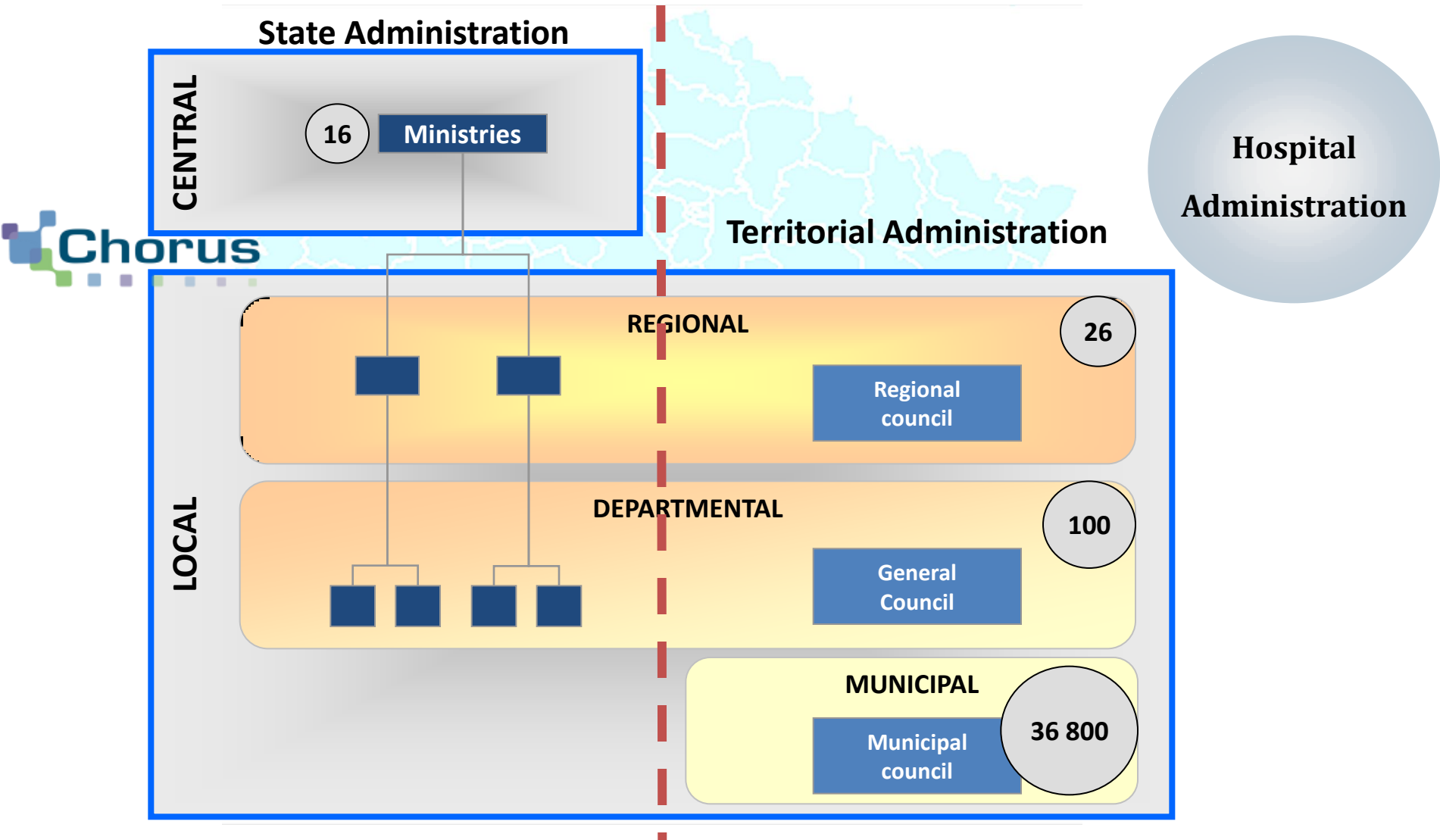
Social Security

Local authorities

- Region
- Department
- Cities

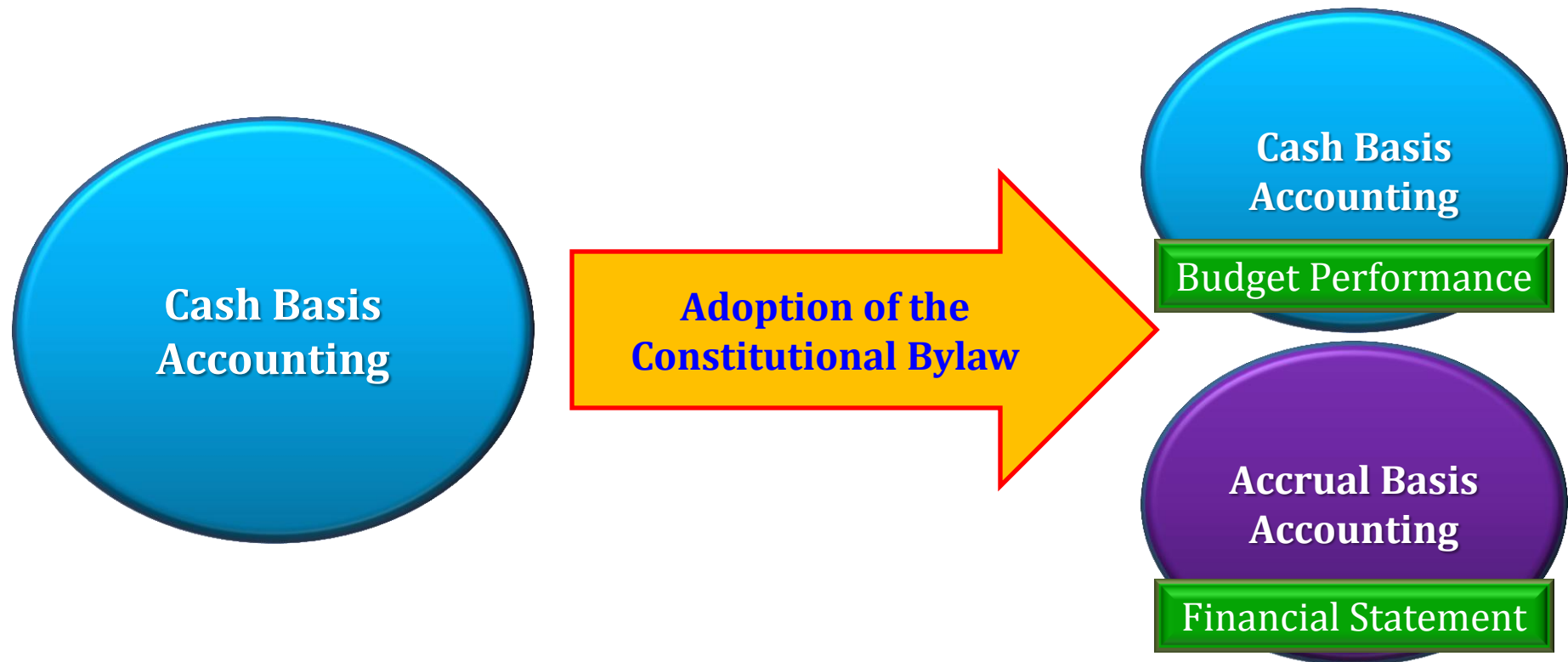


ORGANIZATION OF FRENCH ADMINISTRATION





CHALLENGES OF THE ACCOUNTING REFORM



Constitutional Bylaw (2001) enhances a new accounting system for France based on **accrual accounting** in order to make **financial information more transparent** for the Parliament and the public.



KEY DATES FOR TRANSITION TO ACCRUAL

Vote of
LOLF* by
the
Parlia-
ment

First Central
Government
Accounting
Standards

First Audit
of the
accounts by
“Cour des
comptes”

Finalization of
SAP
implementation

2001

2003

2004

2006

2007

2008

2012

2013

Preparation

First
opening
balance
sheet

Decision to
change the
information
system

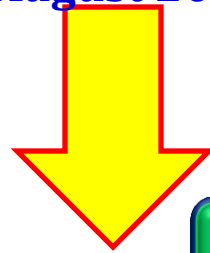
First
account
complete
under SAP

*LOLF : The Constitutional bylaw regarding budget procedures.

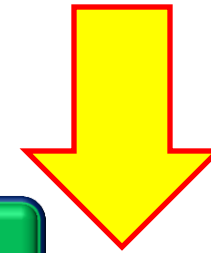


BUDGETARY AND ACCOUNTING REFORM: Main Steps

The Constitutional Bylaw
(L.O.L.F)
01 August 2001



Target : Implementation
01 January 2006



PREPARATION

IMPROVEMENTS

The previous budgetary and accounting system :
Cash Basis // Modified Cash Basis Accounting

The new budgetary and
accounting system:
Accrual Basis
Accounting



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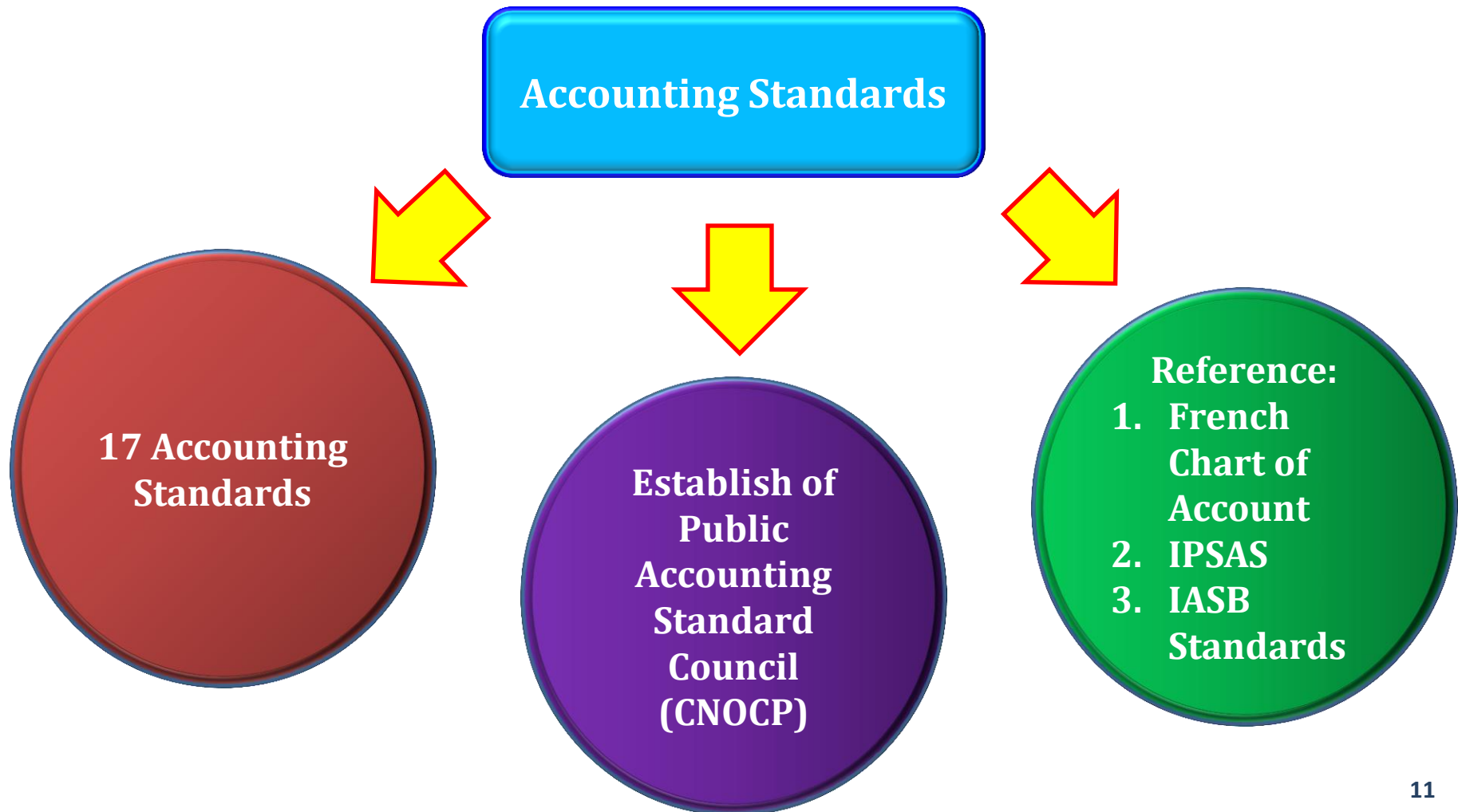
Information System

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APPROACH ON IMPLEMENTATION OF ACCOUNTING STANDARDS





PUBLIC ACCOUNTING STANDARD COUNCIL (CNOCP)

Established by the Annual Budget Act on 30th Dec 2008.

Supersedes the former Public Accounting Standards Committee which used to regulate the French Central Accounting Standards.

Three (3) Commissions for:

- **The Central Government and Government Controlled Organisations.**
- **The Local Authorities and Local Public Agencies**
- **The Social Security Organisations.**

Members of the Board and Commissions are:

- **Members of the National Court of Audit;**
- **Representative of the General Directorate of Public Finance, of the Budget Directorate, of the main ministries and Government Offices;**
- **Members of public committees; and**
- **Private experts.**



DUTY OF THE CNOCP

- 1) Following up the work of the accounting normalisation committee in order:
 - i. To improve the Central Government Accounting Standards.
 - ii. To reflect practices evolution.
- 2) 17 standard has been designed and improved.



LIST OF 17 ACCOUNTING STANDARDS

STANDARD	DESCRIPTION
Standard 1	Financial Statement
Standard 2	Expenses
Standard 3	Sovereign Revenues
Standard 4	Operating Revenues, Interventions Revenues and Financial Revenues
Standard 5	Intangible Assets
Standard 6	Tangible Assets
Standard 7	Financial Assets
Standard 8	Inventories
Standard 9	Claims Related to Current Assets
Standard 10	Central Government Cash Position Components
Standard 11	Financial Debts and Derivative Financial Instruments
Standard 12	Non Financial Liabilities
Standard 13	Commitments to be Disclosed in Notes to the Financial Statements
Standard 14	Accounting Policies, Changes in Accounting Estimates and Errors
Standard 15	Events After the Reporting Date
Standard 16	Segment Reporting
Standard 17	Heritage Assets



PUBLIC ACCOUNTING STANDARD COUNCIL (CNOCP)





TANGIBLE ASSETS

Recognition Criteria

- i. **Controlled by Central Government.**
- ii. **Cost or value can be reliably measured.**

Threshold

- i. **€10,000 per item.**
- ii. **For military equipment - threshold is for per group item but must first seek approval from Ministry of Finance.**

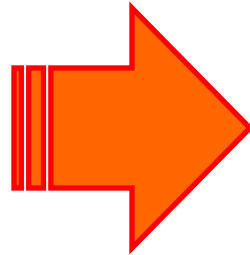
Initial Measurement

For opening balance, assets are measured at acquisition cost.



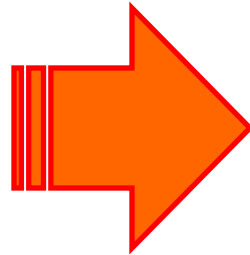
SPECIFIC MEASUREMENT RULES FOR CENTRAL GOVERNMENT

Land and Property



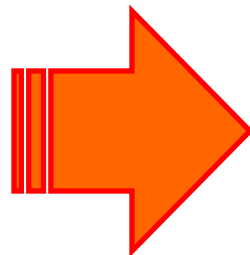
Measured at market value on initial recognition.

**Road Infrastructures
or Prisons**



Assets with specific measurable service potential been measured at depreciated replacement cost.

**Historical
Monuments**



Assets with an un-measurable service potential directly related to their nature or symbolic value been measured at a symbolic or fixed non-revisable amount.



INVENTORIES

**Central Government inventories
include:**

Ammunition

Consumable stores

Maintenance
materials

Spare parts for plant
and equipment

Strategies stockpiles
(For use in the event of
emergency / disaster)

Stocks of un-issued
coins

Work in progress

Land and building
held for resale

Initial measurement :
AT COST

**Measurement at the
reporting date :**
**At the LOWER OF COST
AND NET REALISABLE
VALUE, or for
INVENTORIES HELD
FOR DISTRIBUTION at
NO CHARGE OR
NOMINAL CHARGE.**



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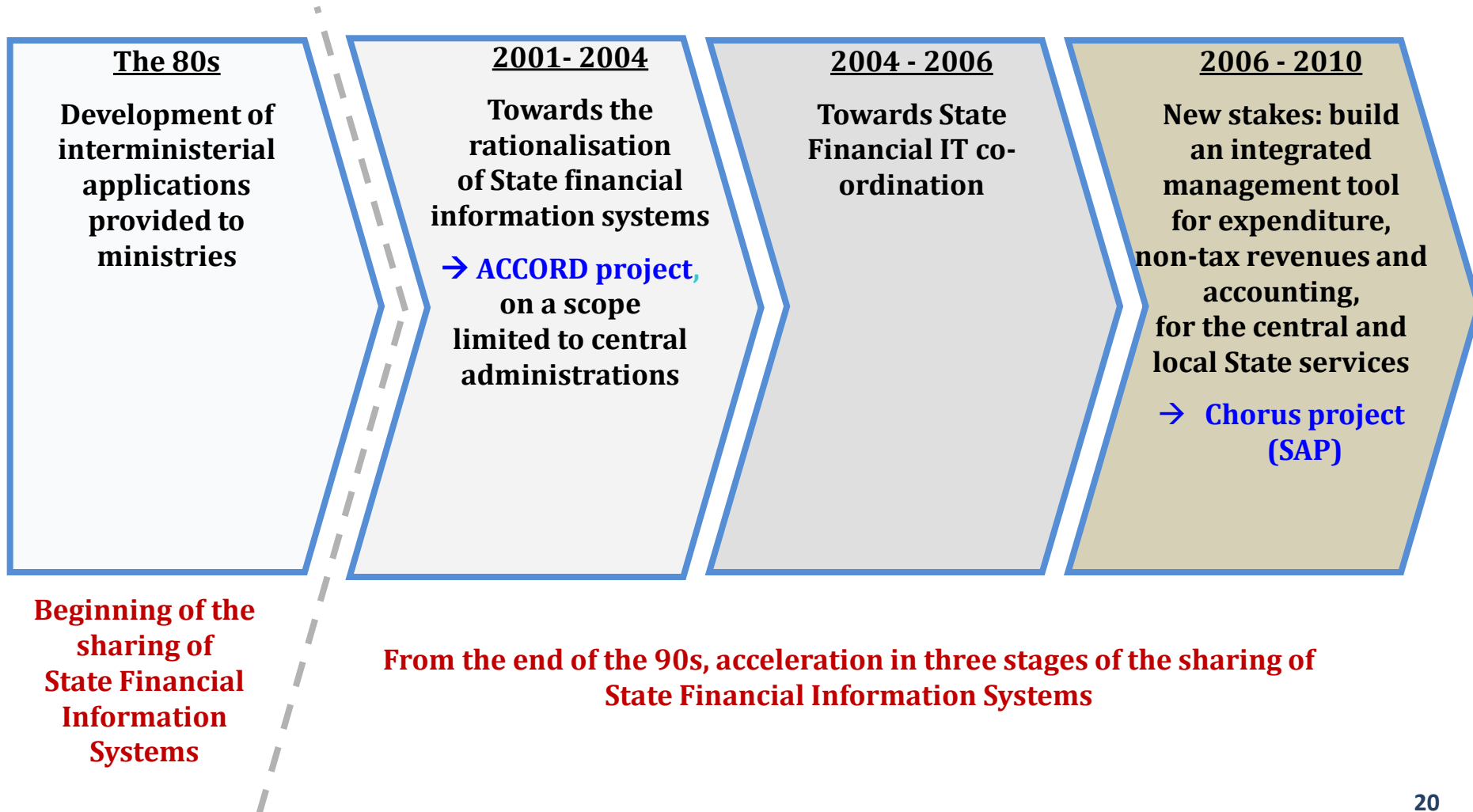
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HISTORY OF THE STATE FINANCIAL INFORMATION SYSTEM





CHOICE OF AN ERP SYSTEM



Integrated system

- ➔ Consolidated frameworks (customers, suppliers, chart of accounts, etc.)
- ➔ Seamless process management (procurement, suppliers, etc.)
- ➔ Use predefined management rules to interpret all accounting entries
- ➔ Implement a standardized workflow among the different stakeholders



Real-time system

- ➔ Data posted is immediately available to authorized users
- ➔ Data posted immediately updates accounting and budget items using predefined and integrated management rules



Reliability and security

- ➔ No duplicates posted, ensuring no time loss and improved data consistency
- ➔ Certain automatic processes (e.g. allocations or transfers)
- ➔ Confidentiality ensured:
 - Authorization management
 - Chorus access controlled using strong authentication

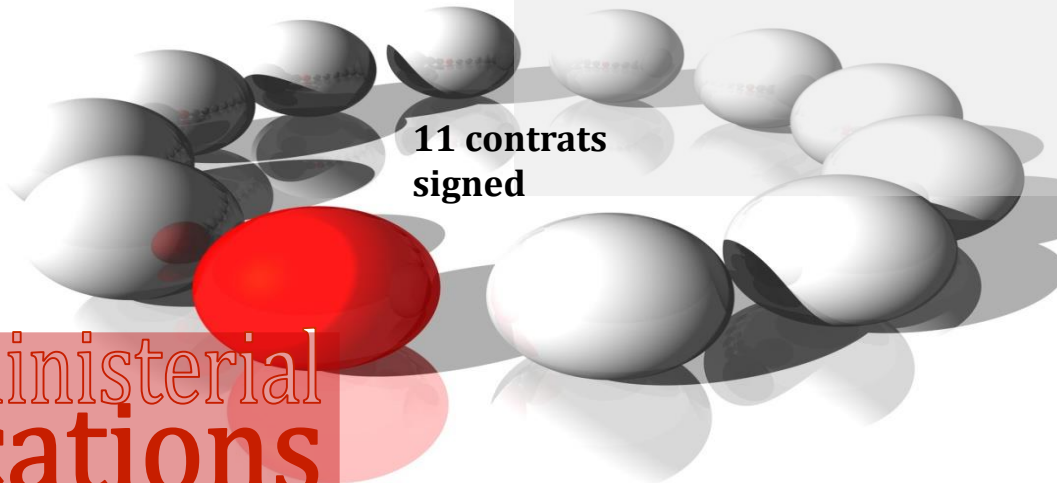


User-friendliness

- ➔ Windows interface (portal, buttons, icons, drop-down menus, etc.)



260 Ministerial applications

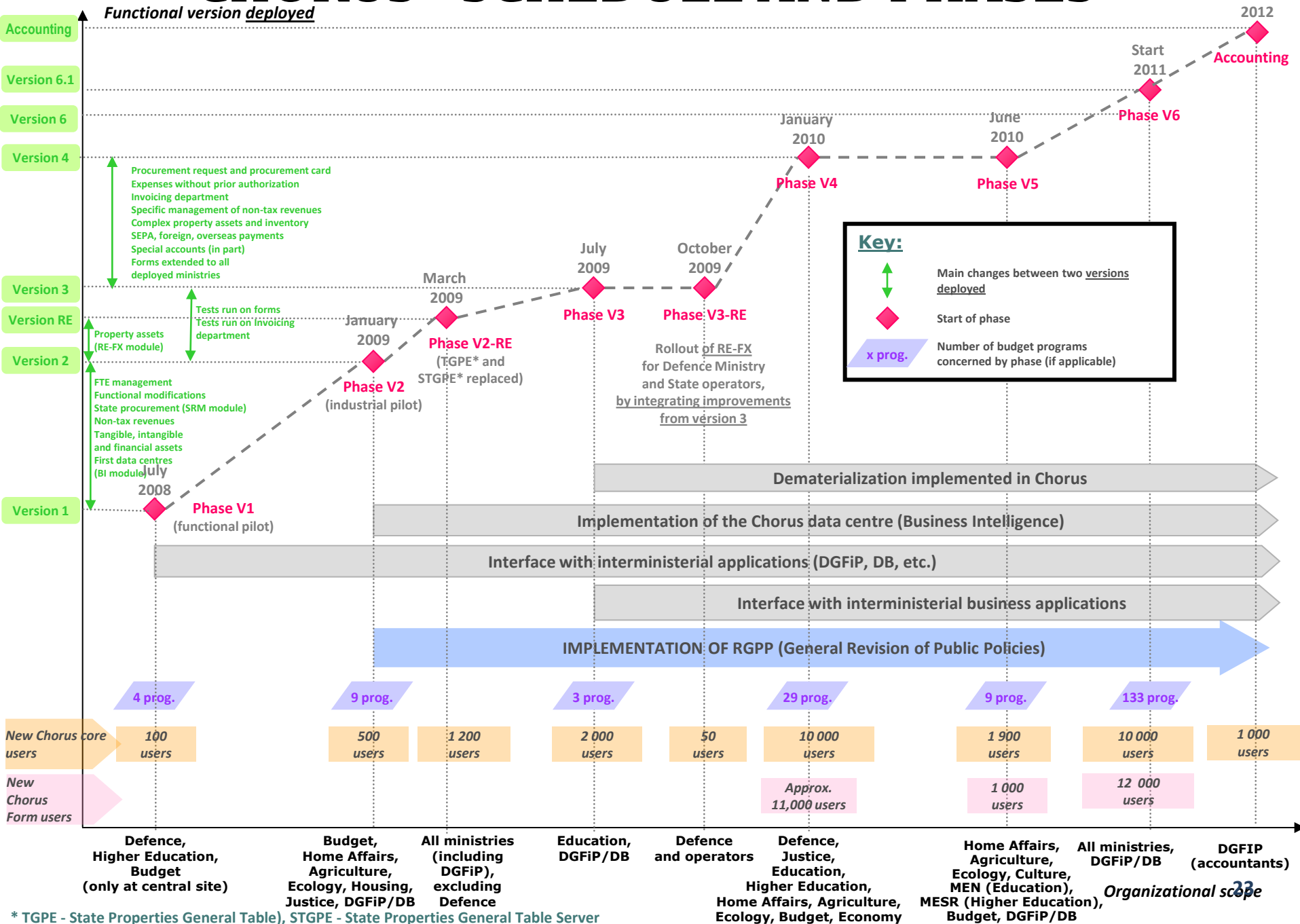


11 contrats
signed

60 Interministerial
applications

- Target : 80 deleted applications and Slightly fewer than 100 applications interfaced
- **Today : 60 deleted applications and 90 applicatons interfaced**

CHORUS - SCHEDULE AND PHASES





CHORUS - COST



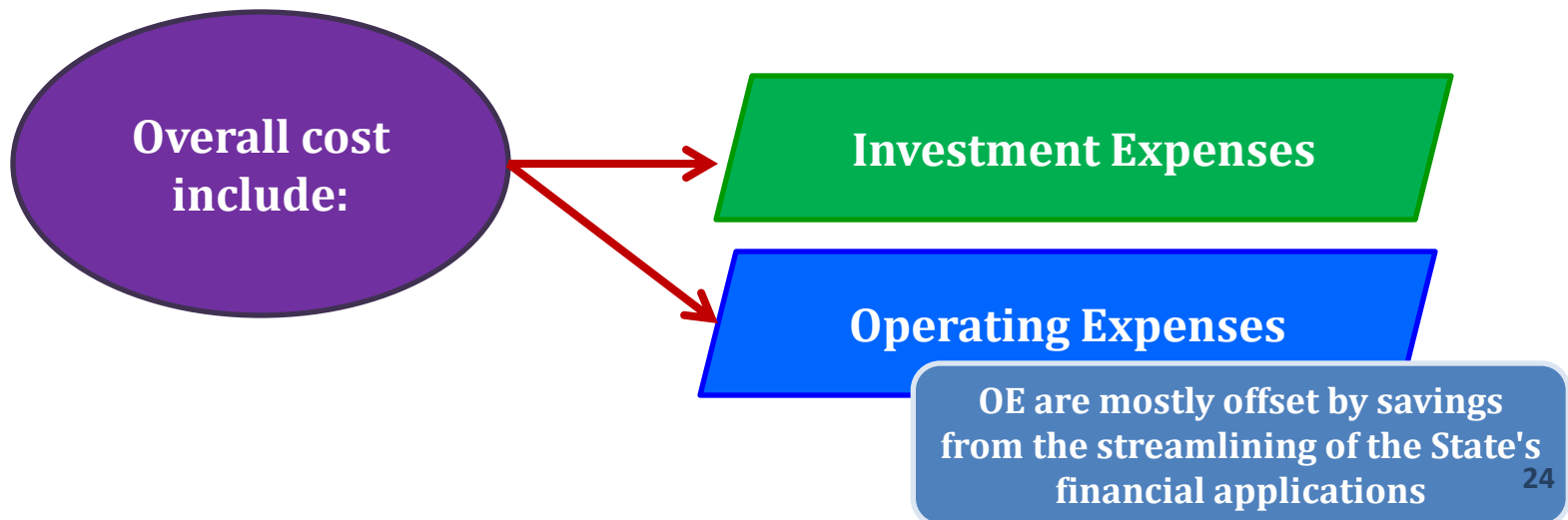
* Forecast of overall cost: **€1.1 billion over 10 years**

- **5 Years of investment**
- **5 years of operation**

* Estimate given by the **Inspectorate-General of Finances in 2006**

- **Consistent with the Court of Auditors' figures**

Reality: **€997 million** over **10 years**.





CHORUS – CORE USER

55,000 users.





IMPORTANT CONSTRAINTS AND LIMITS OF AN ERP SYSTEM

1

ERP is ergonomically designed... but certainly not intuitive.

- As such, we must focus strongly on training
- Even if user training is carried out correctly, the learning phase is important and should not be neglected
- Despite being "integrated tools", the user-friendliness of modules vary largely according to their age and version

2

We should not adapt ERP to our processes; we should adapt our processes to ERP.

Example in Chorus: the complementary period has been discontinued

3

An ERP system generally does not interface well with external software applications or legacy business tools.



BEST PRACTICES FOR IMPLEMENTING ERP

- 1) Undertake process and organizational reengineering before or at the start of the project**
- 2) Manage the project by prioritizing the time axis, before cost or quality**
- 3) Work in mutual agreement**
- 4) And most of all, avoid using any specific development with an ERP like SAP, even when proposed by SAP themselves!**



RECOGNITION OF EXPENSES (New Accounting System)

General Purpose Accounting (Accrual Basis Accounting)

Debit : Expenses or Fixed Assets
Credit : Payable

Debit : Payable
Credit : Cash

Event giving
rise to the entry.

Purchase order

Delivery

Invoice +
Payment order

Accountant
Control / Visa

Payment

Process managed by an ADMINISTRATIVE

Process managed by an
ACCOUNTANT

PROCESS OF EXPENDITURE

For all kinds of expenses.

Recording of
commitments for
budgetary purpose

Budget expenditures
Budgetary accounting



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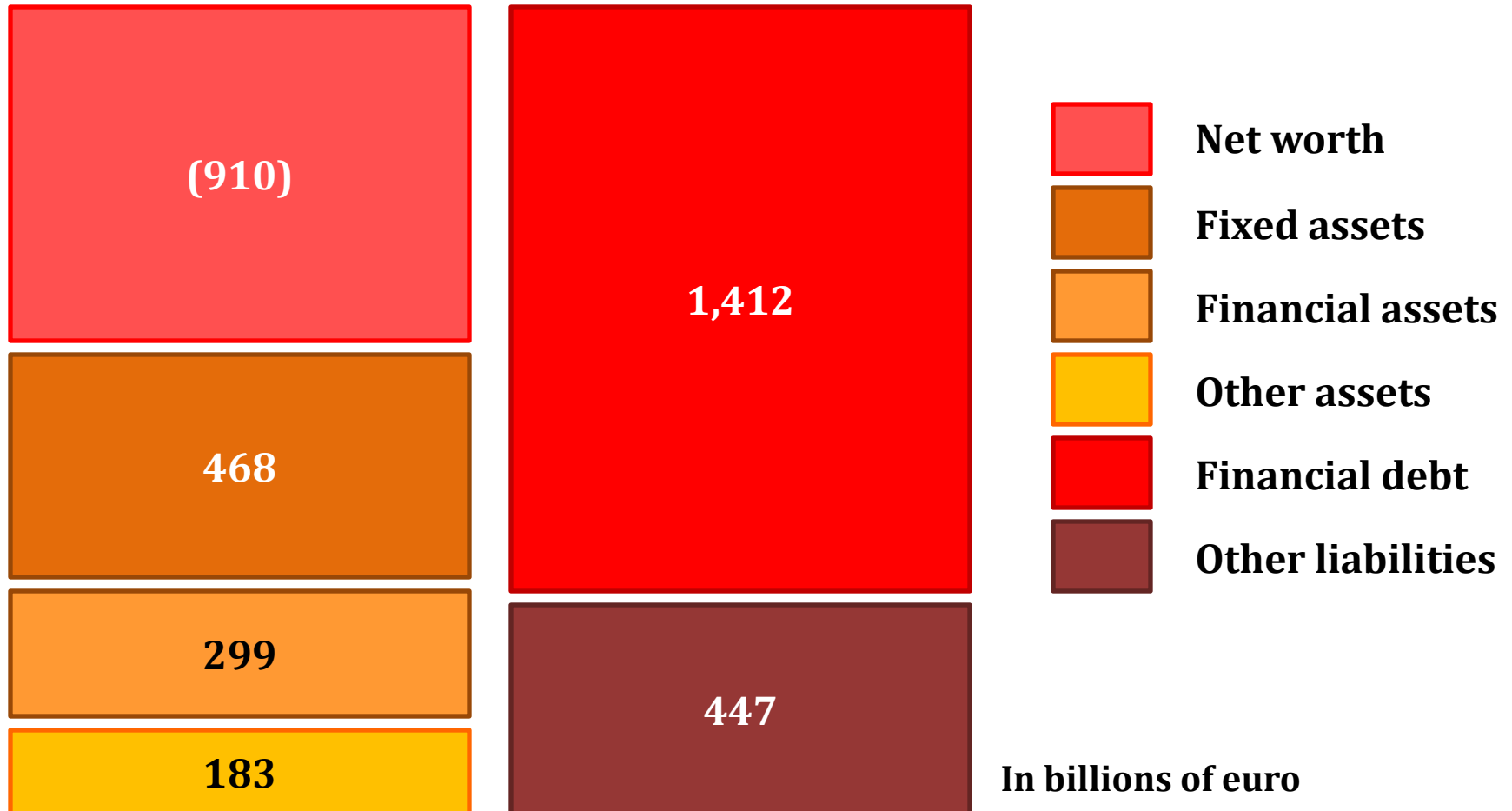
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Financial Statement



2012 FINANCIAL STATEMENTS

Balance Sheet



Net worth represents 45% of GDP in 2012.



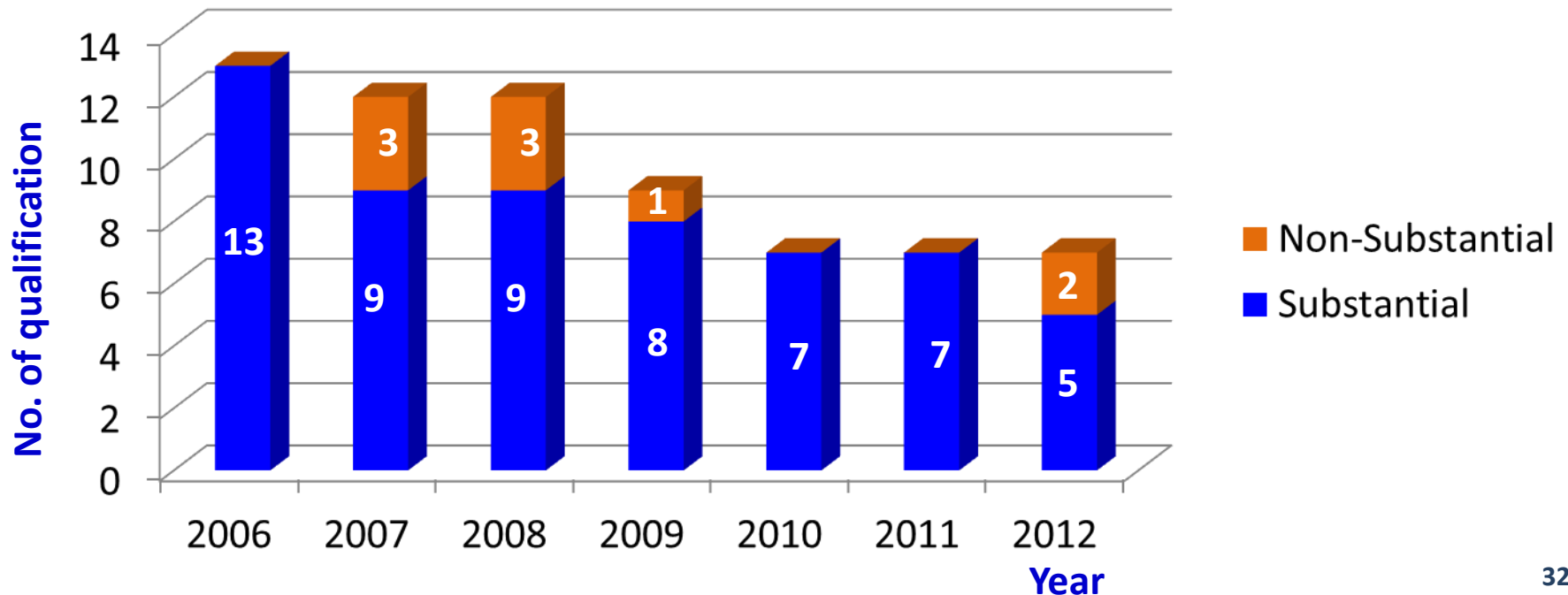
BALANCE SHEET 2012 – SIGNIFICANT VARIATIONS

EUR Billion	31/12/2011 Restated	31/12/2012	Change in value	Change in %
TOTAL ASSETS	921	949	28	+ 3%
Including:				
Tangible assets	453	468	15	+ 3%
Financial assets	285	299	14	+ 5%
TOTAL LIABILITIES	1,749	1,859	110	+ 6%
Including:				
Financial debt	1,339	1,412	73	+ 5%
Other liabilities	410	447	37	+ 9%
- including provision	100	105	5	+ 5%
NET FINANCIAL POSITION	(828)	(910)	(82)	- 10%



THE FRENCH ACCOUNTING REFORM: CERTIFICATION

- ❑ External Audit : An evidence of the improvement of the quality of the central government account.
- ❑ From 2006, the number of qualifications has been reduced (from 13 qualification to 7 qualification for the 2012 financial statements).





LIST OF QUALIFICATION

	2006 Qualification	2007 Qualification	2008 Qualification
1.	Financial Reporting Systems of the Central Government	Financial Reporting Systems of the Central Government	Financial Reporting Systems of the Central Government
2.	Internal Control and Audit Systems	Internal Control and Audit Systems	Internal Control and Audit Systems
3.	Defence Ministry Assets	Defence Ministry Assets	Defence Ministry Assets
4.	Implementing partners' account	Implementing partners' account	Implementing partners' account
5.	Specific tangible and intangible assets	Government revenues from taxes	Sovereign revenues
6.	Recording of interest rate swap agreements for debt management	Specific fixed assets	Liabilities related to programme expenditure
7.	Public procedure account managed by Coface	Coface Public Procedure Account and Section for Centralized Saving Funds	Real estate holding
8.	Section for Centralized Saving Funds	Liabilities related to transfer transaction	Other assets and liabilities end-of period reports
9.	The national road network	Real estate holding	Social debt redemption fund
10.	Real estate holding	Cash account	Cash account
11.	Tax liabilities	Contingency Provisions	Other central government participations
12.	Liabilities related to transfer transaction	Other determinations of assets and liabilities	Public service concessions
13.	Public authorities' account		



LIST OF QUALIFICATION (continue)

	2009 Qualification	2010 Qualification	2011 Qualification	2012 Qualification
1.	Financial Reporting Systems of the Central Government	Financial Reporting Systems of the Central Government	Financial Reporting Systems of the Central Government	Financial Reporting Systems of the Central Government
2.	Internal Control and Audit Systems	Internal Control and Audit Systems	Internal Control and Audit Systems	Internal Control and Audit Systems
3.	Identification and valuation of the implementing partners	Sovereign revenues	Sovereign revenues	Sovereign revenues
4.	Charges and liabilities related to programme expenditure	Government agencies and other financial fixed assets of the State	Liabilities related to transfer transaction and other non financial liabilities	Assets and liabilities of the Ministry of Defence
5.	Ministry of Defence assets	Assets of the Ministry of Defence	Assets and liabilities of the Ministry of Defence	Holding and other financial fixed assets
6.	Sovereign revenues	Intervention expenditure and liabilities	Holding and other financial fixed assets	The State's real estate assets
7.	Real estate holdings of the Central Government	The State's real estate assets	The State's real estate assets	Non-financial liabilities
8.	Social debt redemption fund			
9.	Other fixed assets and inventories of the civil ministries.			



QUALIFICATION REPORTS 2012

No.	Qualification	Detail
1.	Financial Reporting System of the Federal Government	<ul style="list-style-type: none"> ❖ Insufficient integration of the IT system <ul style="list-style-type: none"> ➤ creates risk in the processing of data and limits the ability to assess the integrity of data, completeness and accuracy of accounting records. ➤ does not allow an effective audit trail between accrual accounting application and the application that feed it.
2.	Internal Control and Audit System	<ul style="list-style-type: none"> ❖ The system of internal accounting and financial control is still insufficiently effective to compensate for the structural weakness of the IT environment. ❖ Lack of effectiveness and efficiency of ministerial internal control and internal audit.
3.	Sovereign Revenue	<ul style="list-style-type: none"> ❖ Uncertainty linked to the imperfect application of the accounting guidelines applicable to cash flows and balances. ❖ Accounting entries and balanced are insufficiently documented.



No.	Qualification	Detail
4.	Defense Ministry Assets	<ul style="list-style-type: none"> ❖ The scope of tangible asset and inventory identification process is too narrow. ❖ Several categories of assets are excluded from the inventory records because they are not integrated in the information system. E.g. assets located oversea, nature of asset (nuclear, missiles and military satellite).
5.	Holding's and Other Financial Fixed Assets	<ul style="list-style-type: none"> ❖ The information provided relating non-controlling financial interest is not sufficiently detailed.
6.	The State's Real Estate Assets	<ul style="list-style-type: none"> ❖ Uncertainty of the identification and valuation of real estate. ❖ Low quality of data – insufficient quality of the relationship between physical and accounting inventory. ❖ Lack of regular on site valuation of real estate assets create uncertainty concerning their book value.
7.	Non Financial Liabilities	<ul style="list-style-type: none"> ❖ Lack of provision for France Government's liabilities under VAT Offset Fund.



CONCLUSION: KEY DRIVERS

- 1** Bringing the requirement to move to accrual in a law.
- 2** Having a milestone plan.
- 3** Dedicated team focused on the preparation of the opening balance.
- 4** Improvement that can be achieved after the first set of financial statements.
- 5** Good communication with National Audit Office.



**Thank You
For Your Kind Attention**