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France Supports Accrual Accounting For The Public Sector

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Abstract: This article explains why France supports accrual accounting for the public sector. The French CNOCP, in producing accounting standards for the public sector, takes into consideration the public sector characteristics which are mentioned in the Conceptual Framework for public accounts. The last part of this article presents the link between budgeting and accounting in the French context.

Keywords: public sector, accrual accounting, power

Accounting for the European Public Sector: Roundtable on the Ongoing Reform of European Public Sector Accounting Standards (EPSAS)

1. “Harmonising European Public Sector Accounting Standards (EPSAS): Issues and Perspectives” by Yuri Biondi, <https://doi.org/10.1515/ael-2017-0014>
2. “France Supports Accrual Accounting For The Public Sector” by Marie-Pierre Calmel, <https://doi.org/10.1515/ael-2017-0019>
3. “Challenges for European Public Sector Accounting” by David Heald, <https://doi.org/10.1515/ael-2017-0021>
4. “Italian Public Sector Accounting Reform: A Step Towards European Public Sector Accounting Harmonisation” by Riccardo Mussari and Daniela Sorrentino, <https://doi.org/10.1515/ael-2017-0006>
5. “European Public Sector Accounting Standards (EPSAS)” by Alexandre Makaronidis, <https://doi.org/10.1515/ael-2017-0008>
6. “Open Debate on Accounting for the European Public Sector” by Imke Graeff, <https://doi.org/10.1515/ael-2017-0025>

First of all, I thank you very much – Mr Yuri Biondi and Labex ReFi – for this kind invitation. It is a great honour for me to be at this front table with famous university professors.

I am going to make my presentation on three points. First of all, I will present the French opinion on the EPSAS project and I will insist on the fact that France supports accrual accounting for the public sector. Secondly, I will present the main

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provisions of the French Conceptual Framework for public accounts. The Public Sector Accounting Standards Council (CNOCP) launched a public consultation on this matter on December 2014 and we have just received about twenty responses that we have to analyse. This document tries to explain the public sector characteristics that might be taken into consideration in public sector accounting standards. Thirdly, I will make a brief presentation of the link between budgeting and accounting in the French context being precise that the aim of the EPSAS project is only accrual accounting and not accrual budgeting.

First of all, what is the French opinion on the EPSAS project? Since 2012, France has supported accrual accounting in respect of the principles of subsidiarity and proportionality and, consequently, favours principles rather than binding detailed standards. France considers that the reliability and the transparency of the Member States' public accounts should be improved through the promotion of a wide use of accrual accounting. According to the French experience, the adoption and the implementation of accrual accounting is a long process and an expensive project. Achieving such a project needs a strong political support and a technical assimilation by many public sector entities. The project should preserve a key role for the Member States because central governments are concerned. The project should not deal with statistical issues because the aim of statistical accounts and accrual accounting are very different. In conclusion, it is important to say that at the stage of the EPSAS project, France is currently of the view that a non-binding recommendation might be the best way forward. Such a recommendation should encourage the implementation of accrual accounting for the main entities and describe the principles on which EPSAS' – if needed – should be designed. Those principles could be a conceptual framework. In this regard, I completely share what Mr Michael Theurer, Member of European Parliament, said this morning.

The second part of my presentation is about the project of the conceptual framework for the French public accounts. A new comprehensive conceptual framework was designed in 2014 for all public accounts (including those of the central government, local governments, public agencies and social security funds). The document relates to all public sector entities. This project does not ignore the French legal context where there is an extension of legal requirement about accrual accounting. The law and a decree explicitly mention: *“The accounting rules of all public entities only diverge from those applicable to private entities wherever made necessary by the specific features of the activities”*. So there was a need to describe those specificities; there was a need for convergence and consistency of the standards. What is the root of specific features? Two tiers should be distinguished. The sovereign power: It has powers and general commitments. It attributes the exercise of some of them to government units: At the end of the process and in some conditions, these powers and commitments will have the nature of rights,

obligations and specific commitments for government units. For example, the power to levy tax is an attribute of the sovereign power; the security of the country is a general commitment of the sovereign power. Regarding the government units, they are responsible in varying degrees, for the implementation of public policies. These entities are managers of the competence and resources attributed to them by the sovereign power. For instance, in France, the Musée du Louvre is a public agency that applies the government policies regarding culture. What are the main accounting consequences of the sovereign power? The nature and the responsibilities between the sovereign power and the reporting entities are different: The sovereign power is not a reporting entity, it does not deal with accounting but with sustainability. It was necessary to define a going concern principle suitable for government units because unlike businesses the future of the entity is not tied to that of its rights and obligations, but to its legitimacy to exercise the part of power delegated by the sovereign power. As I have already said, the attributes and the commitments of the sovereign power are not recognised in the accounts, because it is not a reporting entity: The power to levy tax is an attribute of the sovereign power, it cannot be included in the assets of an entity. The general commitments of the sovereign power (health, security or foreign policy for example) have to be distinguished from the obligations and specific commitments of an entity. A very important point is the consequence of the sovereign power. Because it is not a reporting entity, there is a need for information specific for government units, which should describe the public policies for which the government units are responsible.

The second part of my presentation is about the main provisions of the French and the IPSAS Board Conceptual Frameworks. I have prepared some elements to give you an overview of comparison with the recent IPSAS Board Conceptual Framework. From a formal point of view, the general structure of the two documents is quite similar. The following items are described in both Frameworks: Role and authority of the conceptual framework, users, qualitative characteristics of financial statements, elements of financial statements, recognition, measurement and presentation of financial statements. Regarding the content of both conceptual frameworks, there are some similarities and differences. There are two kinds of similarities: There is the same point of view on the role and authority of the conceptual framework. The conceptual framework is guidance and does not give 'authoritative requirements'. It defines concepts underlying standards, and it is not a set of rules. The considerations given to the users to design the financial statements are also similar. There are two families of differences from a general point of view: First, there is difference on the place and the role of the definition of the public sector and of its key characteristics. In the IPSAS Board Conceptual Framework, the key characteristics are in the 'Preface' as an element of context. In the French one, the key characteristics are inside the Framework as key elements

for a consistent set of concepts. There is also a difference regarding the scope. In the IPSAS Board Conceptual Framework, the scope includes mainly General Purpose Financial Reporting (GPFR), except for some chapters. The scope of GPFR is larger than the General Purpose Financial Statements (GPFS). The French one only applies to General Purpose Financial Statements, due to the authority of the standard setters. There is a main difference regarding the concept of sovereign power: In the French one, the sovereignty is defined as an absolute power belonging to the people, nation or other according to the constitutional and political design in each country. This power is a 'competence of the competence' and the common source of the public sector specificities. The sovereign power is not a reporting entity and is above reporting entities: Central government as well as other entities, and consolidating entities. In the IPSAS Board Framework, sovereign power is mentioned with a meaning of exorbitant (even arbitrary) power belonging to government. The concept of sovereign power does not impact the definition and perimeter of reporting entities and the issue of consolidation. There are wide convergences in the definition of elements and financial statements. Are quite similar: The list of elements and the definitions of elements (asset – according to both Conceptual Frameworks the power to raise taxation does not meet the definition of an asset –, liability, expense revenue, net asset, net financial position), the recognition criteria and the presentation of General Purpose Financial Statements. As already said, there is a focus on the French Conceptual Framework on obligations and commitments. It is important to identify whether an obligation is a present obligation of an entity. It is also necessary to distinguish the nature of the commitments: (i) the general commitments, attributes of the sovereign power, which are not in the accounts, (ii) the commitments of an entity which are similar to the commitment of a private sector entity, and (iii) the specific commitments which have to be disclosed. In conclusion, the French Conceptual Framework identifies the root of the key characteristics of the public sector – which is a sovereign power – and its main consequences: It defines the reporting entity; it explains why the power to raise taxation is not an asset (it is a prerogative of the sovereign power); it paves the way to the analysis of the nature of commitment deriving from the sovereign power; it proposes to complete the financial information by providing information on certain powers or commitments of the sovereign power.

The third part is about budgeting and accounting and I would like to expose you what is the French context regarding this difficult subject. The driver for the French public accounting reform was the Parliament with the approval of a constitutional Bylaw on Budget Act of 1st August 2001, known as LOLF. The LOLF provided for the introduction of accrual-based General Government accounts on 1st January 2006 while maintaining the conventional budget presentation in terms of receipts and payments (cash basis which remains the main

reference of annual Budget Acts). The LOLF required the holding of three independent accounting systems that would be articulated: Budgetary (cash basis) accounting, accrual basis accounting and management or costs accounting. The progress instrumented by the LOLF is reflected today in the modernisation of legislation governing other public entities, in particular with the publication of the decree of 7 November 2012 on public budgetary and accounting management. This decree emphasised the role of general accounting for public sector entities, separating it from budgetary accounting. Regarding local entities, there is a mix system of accounts and accrual basis with different degrees of complexity according to the nature and the size of the structures.

In conclusion, France supports accrual accounting for public sector entities. I have tried to explain that there are specific features in the public sector that might be taken into consideration to propose accounting standards for public entities. In this regard, a conceptual framework for public entities gives the opportunity for standard setters and notably the future European standard setters to have guidance on concepts underlying accounting standards. Nevertheless, implementing accrual accounting for public sector entities does not mean that it is necessary to define accrual budgeting rules: In France, there is a mix system of accounts and accrual accounting makes work together with cash basis budgeting. Thank you.

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