Advisory Committee for the Standardisation of Public Accounts

The Chairman

Re: IPSAS Board Exposure Draft on the Key Characteristics of the Public Sector

The present document is the response from the French Court of Auditors to the IPSAS Board Exposure Draft on "Key Characteristics of the Public Sector with Potential Implications for Financial Reporting."

Within the French Court of Auditors, the advisory committee of financial jurisdictions for the standardisation of public accounts prepares the opinions of the Court on the standardisation of financial reporting for the three sectors of public administration (national government, territorial authorities and social security). This committee prepares the positions to be defended by representatives of the financial jurisdictions before the various standardisation bodies.

1. The situation in France

In France, accounting for non-trading public sector entities is governed by rules and standards which are generally similar to those applied by the private sector, with some differences depending on the sector:

- Article 47-2 of the French Constitution, as amended further to the latest constitutional review dated 21 July 2008, provides that "the accounts of public administrations shall be lawful and faithful. They shall provide a true and fair view of the result of the management, assets and financial situation of the said public administrations";

- For national government, the principle laid down in the organic law relative to the laws of finance¹ is that the rules related to the private sector shall apply "subject to the specific features of government action";

- Social security bodies apply a chart of accounts whose rules only depart

¹ Organic law no. 2001-692 dated 1 August 2001, article 30
from those of the General Accounting Chart (applicable to companies which are not subject to the IFRS) if specific legislative and regulatory measures provide otherwise;

- Territorial authorities apply a chart of accounts inspired by the General Accounting Chart, while retaining certain specific features relative to budgetary constraints.²

Accordingly, given this framework, there is a need to pinpoint the key characteristics of these entities which may lead to the adaptation of accounting rules applicable to companies. The IPSAS Board Exposure Draft is instrumental in this respect.

2. The key characteristics identified by the IPSAS Board

As stated by the IPSAS Board in its Exposure Draft, public sector entities, including national governments, have broad powers, while being characterised by a large variety of legal organisation schemes throughout the world.

The IPSAS Board has identified the following key characteristics for public sector entities:

- The volume and financial significance of non-exchange transactions, including fiscal and social contributions, non-exchange transfers and the provision of goods and services in a non-market or limited market environment;
- The importance of the budget;
- The nature of property, plant and equipment held by public entities;
- Responsibility for the protection and preservation of the national and local heritage, including certain natural areas;
- The longevity of the public sector;
- The regulatory role of Government;
- Ownership or control of rights to natural resources and phenomena (e.g.: water, the electromagnetic spectrum) which enable governments to grant licences;
- The importance of national accounting (statistical bases of accounting).

² Budgets include an operating section which tracks ordinary revenue and expenditure and an investments section including subsidies, borrowings and a transfer from the operating section. Local public accounting uses orthodox management principles: territorial authority budgets have to be voted at actual balance, mandatory expenditure must be covered at the start of the fiscal year, repayment of loan capital is drawn from definitive resources and self-financing is first and foremost earmarked for the repayment of debts.
3. Additional characteristics

The key characteristics identified by the IPSAS Board are appropriate. Two additions could be made to these characteristics.

First and foremost, the importance of national accounting in the public sector requires the appropriate convergence with financial accounting, without necessarily meaning that the two can converge entirely, since both systems pursue distinct objectives. Accordingly, these objectives should be explained in more detail in the Exposure Draft.

Secondly, the key characteristics identified by the IPSAS Board call for some reflection as to the form in which financial statements are presented by public sector entities and, more specifically, the statement of financial performance (or revenue statement), the statement of financial position (or balance sheet) and the notes to the financial statements.

Regarding the statement of financial position, IPSAS 1 “Presentation of financial statements” prescribes the “specific” form of the statement of financial position for public sector entities, where assets and liabilities are presented in “blocks” and the net position is presented separately. In France, the government’s statement of financial position is presented in this form, which offers the advantage of reflecting the purely arithmetic nature of the net position.

However, regarding the statement of financial performance, IPSAS 1 fails to take account of all of the implications of the key characteristics presented in the Exposure Draft. Indeed, the scope of non-exchange transactions largely blurs the link between revenue and expenditure, while in corporate accounting, this link is absolutely fundamental. In France, the government’s statement of financial performance takes these implications into account, since, unlike corporate financial performance statements, it is presented in three distinct “blocks” (1- Net State tax and fines revenue, 2- Net expenditure, 3- Balance of transactions for reporting periods).

Finally, given these characteristics, more detailed notes than those generally used by companies should be prescribed, more specifically to take account of the “longevity of the public sector”.

These additions should be made to the Exposure Draft, the substance of which nonetheless meets with the approval of the French Court of Auditors.

Christian BABUSIAUX
Answers to the questions

Question 1

Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of these key characteristics for financial reporting? If not, please indicate how you would modify the document.

The French Court of Auditors considers that the IPSAS Board Exposure Draft provides useful background information on the key characteristics of the public sector. The potential implications of these characteristics should be included in the IPSAS Conceptual Framework which is currently being drafted.

Question 2

Do you agree that this document should be included as part of the IPSASB’s literature? If you agree, where do you think the material in this document should be located:

(a) As part of the Conceptual Framework;

(b) As a separate section of the “Handbook of International Public Sector Accounting Pronouncements”; or

(c) Elsewhere with some other status – please specify?

This Exposure Draft follows on from the first three documents on the Conceptual Framework of public sector entities. It should be included as part of the IPSAS Board literature, either in the Conceptual Framework or elsewhere.