



The work of the Public Sector Accounting Standards Council for 2014 and 2015

The Council's work plan for 2014 and 2015 is expected to include the following topics:

Accounting requirements for Central Government, government-controlled organisations, social security organisations, local authorities and local public establishments

■ **Conceptual Framework**

The purpose of this project is to identify the key elements of a conceptual framework applicable to all entities within the jurisdiction of the Council. This common base will then be enhanced to take into account, as necessary, elements specific to certain entities.

The conceptual framework defines the concepts underlying public sector accounting standards in order to ensure their consistency and facilitate their comprehension. The conceptual framework is for all stakeholders: standard setters, preparers, auditors, users of the accounts. The work currently in progress consists of identifying the objectives of financial statements, their users, and the specific features of the public sector affecting the accounts. It must define the items to be recognised, measurement bases and disclosures to be made in the notes. Discussions concerning the conceptual framework also must lead to a definition of the reporting entity.

■ **Pension commitments**

The subject of pension commitments should be examined by reference to the considerations relating to the conceptual framework for the public sector. It is necessary to identify different situations in order to study them in detail.

An analysis will be required of the complex systems that exist in order to address the conceptual issues that will enable a satis-

factory accounting treatment to be defined, and amend or complete the standards in the Central Government Accounting Standards Manual, the future Public Establishments Accounting Standards Manual and other sets of standards.

■ **Consolidation**

Private sector accounting requirements for the preparation of consolidated financial statements cannot be applied as they stand to public sector entities. Research is required to define the objectives and the meaning to be given to consolidated accounts in the public sector as well as their scope.

Whereas in the private sector control of a company is generally exercised through a shareholding or voting rights, in the public sector control is less often acquired through holding part or all of the share capital than by exercising the authority with which the public authority is endowed. The notions of aggregation and combination could be used to represent the activities of the public authorities, but they need defining. The issue of the consistency of the scope defined for the public sphere with that of the national accounts also needs to be addressed.

The consolidation of the accounts of Central Government with those of its agencies – or entities implementing public policies for which Central Government is directly responsible under its supervision – could be

examined within the scope of the study to be carried out. The current Standard 7 of the Central Government Accounting Standards Manual "Financial Assets" prefigures this project by making the distinction between controlled and non-controlled entities. This distinction lays the foundation for the future consolidated accounts of the "Central Government Group".

The harmonisation of accounting standards and in particular the development of the future Public Establishments Accounting Standards Manual is a preliminary step towards the preparation of consolidated accounts.

■ CO2 Allowances

In the context of international protocols for carbon quotas, the Council is analysing the existing mechanisms under the Kyoto Protocol and at European Union level in order to define the accounting treatment in the Central Government accounts. These requirements will be included in a future standard to be added to the Central Government Accounting Standards Manual.

In a second phase, the analysis will be carried out for "polluting" public authorities and entities to which CO2 quotas have been allocated either without charge or through auction. The conclusions of the analysis will be incorporated in an Opinion.

Public Establishments Accounting Standards Manual

■ Scope of the future Public Establishments Accounting Manual

Following the publication on 7 November 2012 of the decree on public budgetary and accounting management (GBCP), work on the Public Establishments Accounting Standards Manual is continuing with a view to defining harmonised and convergent accounting requirements which are not dependent on the legal status of the entities concerned. In addition to the technical work on the standards, consideration must be given to defining the entities within the scope of the Manual. If the scope of the GBCP decree is based on that of the national accounts and public authorities, it is

nevertheless less extensive than that of the Public Sector Accounting Standards Council which includes private entities with a majority of public funding. In the same way, the scope of the future Manual must not be limited to that of the entities intended to form part of the "Central Government Group", even if conversely it would be preferable if all of these entities applied the requirements of that Manual.

So far, the Council has preferred a technical approach to speed up the publication of the standards for National Public Establishments. Subsequently it will be necessary to define the scope of the Manual with greater precision. The current title "Public Establishments Accounting Standards Manual" is a generic term chosen for convenience. The scope requires further consideration before publication of the future Manual in the form of an order. Nevertheless, to avoid delaying publication, initially the scope could cover mainly National Public Establishments to which budgetary and accounting instructions M 9 apply, and be extended at a later date to other public entities. In particular, further work will be necessary to determine whether ultimately the Manual will apply to hospitals. An *ad hoc* working group could be constituted to deal specifically with this issue. This development is fully in line with the mission of convergence and harmonisation of public entity accounting standards.

■ Accounting standards in progress

The Council is continuing the development of this Manual. In 2014, work will continue on the following standards¹:

- > Standard 1 "Financial Statements"
- > Standard 6 "Tangible Assets"
- > Standard 8 "Inventories"
- > Standard 10 "Cash Position Components"
- > Standard 11 "Financial Debts and Derivative Financial Instruments"
- > A standard on biological assets
- > A standard on long term contracts
- > A standard on lease contracts, finance and operating leases

¹ The standard numbering scheme proposed is that used in the Central Government Accounting Standards Manual, and can be amended where necessary.

In addition, standards will be developed on the basis of work already carried out by the Council. This work has given rise either to the publication of a preliminary opinion on draft accounting instructions issued by the Public Finances Directorate General, or to the publication of mandatory requirements in the form of an Opinion. The following standards will therefore be added to the Public Establishments Accounting Standards Manual:

- > A standard on subsidies ²
- > A standard on asset funding ³
- > A standard on public service delegation contracts (service concessions – public-private partnerships)⁴
- > A standard on jointly-controlled assets⁵

² Reply of the Public Sector Accounting Standards Council of 25 October 2013 to the request for a preliminary opinion on the draft instructions relating to the treatment of subsidies received and multi-year transactions in the accounts of National Public Establishments.

³ Opinion no. 2011-10 of 8 December 2011 relating to the presentation and the assessment of asset funding by public establishments.

⁴ Opinion no. 2011-11 of 8 December 2011 relating to the treatment of contracts for the provision of public services in the accounts of public entities.

⁵ Public Sector Accounting Standards Council Opinion no. 2013-02 of 14 January 2013 relating to intangible and tangible assets jointly-controlled by several entities.

Central Government

■ Standard 6 “Tangible Assets” of the Central Government Accounting Standards Manual

The accounting requirements of Standard 6 “Tangible Assets” of the Central Government Accounting Standards Manual have been revised with a view to clarifying and simplifying them. The issue of reporting date measurement for tangible assets will be examined in the light of the discussions on the conceptual framework for public entities and of the requirement for convergence of accounting standards of all public entities. Moreover, the connections between certain provisions of this Standard and those of Standard 8 “Inventories” and Standard 17 “Heritage Assets” will also be examined. The development, in parallel to this work, of a standard including the requirements for public service delegation contracts (service concessions and public-private partnerships) would lead to a clarification of Standard 6 and be consistent with the future Public Establishments Accounting Standards Manual.

■ Standard 8 of the Central Government Accounting Standards Manual “Inventories”

Revision of this standard could involve eliminating the application guidelines or, conversely, adding provisions to treat specific government features, as the case may be. It could be re-examined in light of the detailed study leading to the development of Standard 8 of the Public Establishments Accounting Standards Manual which identified certain issues concerning the public sector.

■ Standard 10 of the Central Government Accounting Standards Manual “Cash Position Components”

This standard will be updated to incorporate the benefit of past experience and a different format, including the deletion of the “Examples” section.

■ **Standard 11 of the Central Government Accounting Standards Manual “Financial Debts and Derivative Financial Instruments”**

Standard 11 of the Central Government Accounting Standards Manual is mainly designed to address the debt management transactions of Agence France Trésor. It deals with loan issues and the related interest rate hedging transactions. Macro-hedging strategy is mainly used for these transactions.

Nevertheless, Standard 11 provides further guidance on hedge accounting, and stipulates that in application of the 1990 banking regulations, interest rate swaps may be classified in four categories, even if only macro-hedging is actually used. A review of these requirements is necessary to determine whether the standard may be simplified, in light of the funding transactions carried out by Central Government and developments in national and international accounting standards.

■ **Standard 1 of the Central Government Accounting Standards Manual “Financial Statements”**

Once work on the above-mentioned standards and the conceptual framework has sufficiently progressed, a review will be made of presentation of financial statements in Standard 1 of the Central Government Accounting Standards Manual and the definition of notions such as net assets/equity.

Public establishments

■ **Referral from the Mandatory Liability Insurance Guarantee Fund (FGAO)**

A draft order relating to the Mandatory Liability Insurance Guarantee Fund (FGAO) has been referred to the Council by the Directorate General of the Treasury. The draft order relates to the creation of a subsidiary ledger to identify separately in the financial statements the transactions resulting from the extinction of the funding obligation for the legal indexation of pensions. A reform of the funding of the legal indexation of pensions was introduced by the

Supplementary Budget Bill for 2012: the cost is no longer borne by the FGAO, but by the market. However, the cost of indexation of the pension base originating from accidents occurring before the 1 January 2013 is still borne by the Fund, and the Insurance Code requires separate accounting for this particular purpose.

■ **Referral from the Agency for managing the recovery of seized and confiscated assets (AGRASC)**

The AGRASC was set up by the Act of 9 July 2010 and started to operate early in 2011. Its creation was a logical consequence of the introduction of new legislation (increased occurrence, in recent years, under criminal law of confiscation procedures and the introduction, by the law in question, of criminal seizure provisions) and was justified by the need to manage seized assets, particularly when the types of assets require proper management (boats, buildings, businesses, shares etc.). Judicial departments are not necessarily equipped for this management role. The main issues raised by the AGRASC, which are relevant for the Council, relate to the recognition of seized or confiscated tangible assets, whether or not in legal custody, the issue of determining the controlling entity and the date of control depending on the legal recovery procedures.

Local authorities and local public establishments

■ **Presentation of the financial statements of the local public sector**

The Council is to study improvements enhancing the understandability of the financial statements of local public sector entities. The purpose of this work will be to develop a presentation model for the financial statements (balance sheet, income statement and notes), combining simplicity and clarity, and suitable for audit purposes for the entities concerned.

In the current context, several elements plead in favour of this study:

> The issue of the single financial account recommended by the Inspectorate General of Finance (report of December 2012, pro-

posal no. 12) at regional level and the French Government Audit Office (report of October 2013) for all authorities.

> Experimental auditing of authorities with revenue of over €200M, included in the bill for regional solidarity and local democracy.

> European discussions on the harmonisation of public sector accounting standards.

■ Accounting principles for the local public sector

The Council is studying the relationship between general and budgetary accounting in local public sector entities. This approach involves analysing the main accounting principles currently applied in the local public sector and proposing changes where necessary.

As a first stage, the Council will make an in-depth study of the advantages and disadvantages of “single” and “dual” systems with a view to choosing one of the two.

As a second stage, the Council will define the procedure for reviewing accounting principles and the organisation required to deal with them. Thus certain issues which have already been identified will be dealt with, such as the notion of the control of assets, depreciation and its elimination for budget purposes, the disposal of fixed assets, the scope of provisions, the continued recognition as liabilities of certain subsidies received known as “non-transferrable to the operating section”, and the recognition of subsidies paid as assets.

Social Security Organisations

The Public Sector Accounting Standards Council will undertake the work described hereafter in response to possible referrals by the Social Security Directorate and/or the auditors of the Social Security Organisations (French Government Audit Office, National Company of Auditors), taking into account the principles adopted for the future public accounting conceptual framework.

■ Nature and scope of the obligations of Social Security Organisations with respect to the granting of multi-year agreements

The Council has requested the lawyers of the Social Security Directorate to provide a legal analysis clarifying the normative framework for the activities of Social Security Organisations. Such an analysis should also provide insight into the nature and scope of the legal obligations of Social Security Organisations with regard to insured persons, particularly with respect to multi-year agreements, in order to be able to define the relevant accounting treatment.

Subsequently, this analysis should lead to the definition of objectives and principles that should form the basis of accounting by Social Security Organisations with a view to drafting a conceptual framework for accounting standards for Social Security Organisations.

■ Recognition of recovery transactions

Following the observation of disparities in the accounting methods used for recovery transactions by Social Security Organisations, the Social Security Directorate plans to refer a draft order to the Council clarifying these methods in the Single Chart of Accounts for Social Security Organisations. The primary goal of the draft would be to supplement and clarify recognition rules concerning recovery transactions. It will concern both general regime recovery organisations, for which recovery is the main activity, as well as organisations that manage compulsory social security schemes, which recover the levies that constitute the scheme’s resources as well as the resources allocated by law to other organisations.

European discussions on the future public sector accounting standards

The Council takes an active part in discussions on accounting standards applicable in the European Union conducted by Eurostat within the framework of Council Directive 2011/85/EU of 8 November 2011 on requi-

rements for budgetary frameworks of the Member States. In this context, it takes part in any initiative leading to the development of European Public Sector Accounting Standards (known as “EPSAS”).

■ Eurostat “Task Force” on the governance of the future EPSAS and public consultation

Initially, the issue of governance of the future European public-sector standard setter has taken priority. At the invitation of Eurostat, a group of experts delegated by the Member States of the European Union held a first meeting on the 2 October 2013 to discuss a possible governance model for EPSAS. Based on the conclusions of this meeting, Eurostat launched a public consultation, with a reply deadline fixed for mid-February 2014. The Council replied to this consultation.

■ Eurostat “Task Force” on accounting principles and standards

Eurostat plans to set up a second “Task Force” in 2014 to develop European accounting standards, including possibly the examination of the standards of the IPSAS Board¹. The Council will take part in this work, in liaison with the Inter-Directorate Committee for International Public Sector Accounting Standards.

The Council began work on the assessment of the standards of the IPSAS Board before the first meeting of the “Task Force”.

On 6 March 2013 in the report to the Council and to the European Parliament entitled “Towards implementing harmonised public sector accounting standards in Member States – The suitability of IPSAS for the Member States,” the European Commission classified IPSAS standards into three categories:

- > Standards that might be implemented with minor or no adaptation
- > Standards that need adaptation, or for which a selective approach would be needed; and
- > Standards that are seen as needing to be amended for implementation

¹ IPSAS Board: International Public Sector Accounting Standards Board

The Council’s objective is to analyse this classification and make specific comments with a view to developing EPSAS.

The Council is making a detailed review of each IPSAS standard with regard to the requirements of the Central Government Accounting Standards Manual and the future Public Establishments Accounting Standards Manual in order to identify any possible divergences.

The Council will assess the applicability of the requirements of each IPSAS standard to the public sector in France, and will draw attention to their incompleteness, in particular in respect of interventions and transfers. The resulting comments are designed to form the basis of a communique to the Commission.

International Accounting Standards

■ Translation of the standards of the IPSAS Board

In addition, in conjunction with the Governing Council of Chartered Accountants (CSOEC) and the National Company of Auditors, the Council will continue with its project, which began in 2012, of translating the IPSAS standards into French. The objective for 2015 is the publication of a complete set of IPSAS standards based on the publications of the IPSAS Board up until 2013. This process involves upgrading the translations of all the texts published since the outset by the IPSAS Board, that include one-off editorial improvements, successive amendments, and new standards (first part of the conceptual framework, key characteristics of public sector entities.) A review of standards IPSAS 1 to IPSAS 24, the translation of which dates back to 2007, will therefore be undertaken. This review will include the harmonisation of terminology.

■ Consultations of the IPSAS Board on consolidation

The IPSAS Board published five exposure-drafts based on the series of standards issued in May 2011 by the IASB² which deal with consolidation, joint arrangements, equity

² IASB: International Accounting Standards Board

accounting, separate financial statements and disclosures in the notes (new standards IFRS 10³, IFRS 11⁴, IFRS 12⁵ and amended standards IAS 27⁶ and IAS 28⁷).

Indeed the IPSAS Board wishes to replace standards IPSAS 6 to 8⁸, published in 2000 then amended in 2006 and 2011, and benefit from the latest versions of the IASB whilst incorporating the specific features of the public sector. The Council will reply in February 2014 to the following drafts issued for comment:

> ED 48 – Separate Financial Statements (accounting and disclosure requirements for investments in controlled entities, joint ventures and associates)

> ED 49 – Consolidated Financial Statements (principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities)

> ED 50 – Investments in Associates and Joint Ventures (accounting treatment of investments in associates and requirements for the application of the equity method when accounting for investments in associates and joint ventures)

> ED 51 – Joint Arrangements (principles for financial reporting by entities that have an interest in arrangements that are controlled jointly)

> ED 52 – Disclosures of Interests in Other Entities

■ Consultation of the IPSAS Board on First-Time Adoption of IPSASs

The Council will also reply to the exposure draft of the IPSAS Board ED 53 *“First-Time Adoption of Accrual Basis International Public Sector Accounting Standards”* for which a reply is required for mid-February.

3 IFRS 10 *“Consolidated Financial Statements”*

4 IFRS 11 *“Joint Arrangements”*

5 IFRS 12 *“Disclosure of Interests in Other Entities”*

6 IAS 27 *“Separate Financial Statements”*

7 IAS 28 *“Investments in Associates and Joint Ventures”*

8 IPSAS 6 *“Consolidated and Separate Financial Statements”*

IPSAS 7 *“Investments in Associates”*

IPSAS 8 *“Interests in Joint Ventures”*

■ Forthcoming IPSAS Board consultations

The IPSASB is currently finalising papers for the following projects for which a request for comment will be issued in 2014.

> ED 54 *“Reporting Service Performance Information”*

This is a draft Recommended Practice Guideline on reporting service performance information. The draft identifies the characteristics that indicators measuring performance must possess (for example efficiency, effectiveness). The recommendations also relate to the nature of the information to be disclosed. The comment period expires at the end of May 2014.

> Consultation paper on *“Government Business Enterprises”* (GBE)

The paper explores two approaches to defining a GBE. Under the first approach the characteristics of public entities required to apply IPSASs are identified. The second approach sets out to clarify and narrow the current definition of GBE, in particular so that the definition applies only to profit oriented entities. The comment period should expire at the end of August 2014.

> Consultation on the strategy of the IPSAS Board

The consultation seeks views on the strategic direction of the IPSAS Board, as well as on the relevance of the work program for the period 2015-2019. Replies are requested for the end of July 2014.

■ Participation as an observer at IPSAS Board meetings

The General Secretariat of the Council prepares IPSAS Board meetings in close co-operation with the French member of the IPSAS Board and attends those meetings as an external observer. This enables the Council to maintain relations with all the members of the IPSAS Board, as well as with the institutional observers (World Bank, IMF, Eurostat, OECD), and to take part in discussions at the earliest possible stage. In 2014, four four-day meetings are planned in Toronto and Brussels.