

CNOCP

Conseil de normalisation
des comptes publics

Work Program for 2016-2017





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Topics common to different public entities

Conceptual Framework for Public Accounts

The discussion of the Conceptual Framework for Public Accounts began in 2013 and culminated in a nationwide public consultation at the beginning of 2015. There were around twenty responses to the consultation, showing the interest in the accounting standard setter's project. After examination of the comments received, a feedback statement was published in September 2015. The CNOCP is finalising the draft for publication in 2016; this will bring the first phase of the project on the fundamental accounting concepts underlying public sector accounting standards to a close.

Two main subjects have been identified for examination in the second phase¹.

The first relates to the possible combination of the accounts of “complementary” entities. Whilst some combinations appear fairly self-evident (an authority and its “satellites”), consideration could be given to more macro-economic combinations consistent with the definition of sectors in the National Accounts. Such combinations, in conjunction with all or part of the sectors defined in the National Accounts, often have a prominent role in the management of public finance. In this context, the objectives and usefulness of such combinations with regard to accrual accounting principles will need to be documented. It will also be necessary to consider whether such situations are within the scope of consolidation or combination as defined for business accounting, and if the entities composing the combination are controlled by a “controlling” or “combining” entity. This project will be coordinated with work on Central Government Accounting Standard 7 (see below).

The second subject relates to the presentation and the nature of information to be disclosed by public entities. The need to report financial information helpful to users that complements the financial statements on specific subjects usually related to a particular entity's (or group of entities') mission appears to be generally recognised by all stakeholders. At present, this information, when it exists, is published in different forms under the responsibility of different government units and agencies according to the subject matter. Examples include information in the notes to the Central Government General Account, the publication of management commentary by certain public establishments, the

¹ The choice of these two issues takes account of the French Government Audit Office's (“la Cour des comptes”) recommendations which are set out in its report on “*Accrual Accounting for Central Government, Ten Years After*”.

issue of thematic reports by supervisory authorities or by advisory boards set up for the purpose. The issue is whether information falls within the scope of the financial statements and is presented in the notes or whether it should be published elsewhere in another form. The specific nature of public management could indeed lead to a broader definition of the contents of the notes than that generally adopted in the private sector. This raises the question of the limits of standard setting in a situation where audit scope and procedures are currently defined by reference to commercial law and unsuitable for public management.

Leases

The accounting requirements for leases in the public sector are currently inconsistent and incomplete. At present, Central Government Accounting Standard 6 “Tangible Assets” includes the requirement for assets held under a finance lease to be capitalised when they are controlled by Central Government, as well as requirements for operating leases and sale and leaseback. So far, the CNOCP has not developed requirements for public establishments. No Opinion applicable at local level has been issued.

The international private sector reporting standard IFRS 16, *Leases* was published in January 2016 after more than ten years of discussion. This standard provides a definition of leases and introduces a new accounting model affecting the presentation of the financial statements. According to this model, lessees under all leases recognise their right to use an asset and their financial liability under the lease, the latter being determined by reference to the present value of future payments under the contract.

The IPSAS *Board*, consistent with its policy of convergence with IFRS, will be examining IFRS 16 in the near future. After the usual adaptation to reflect specific public sector characteristics, this new standard will be included in the IPSAS framework. Consequently, the CNOCP will need to take a position on the introduction of these new IPSAS requirements, with regard to the situation of public entities in France.

Given the context and the objective of harmonising accounting principles for all public entities, the proposed starting point for the project is an examination of the requirements of IFRS 16, with a view to determining whether they are appropriate for the type of contract encountered in the public sector. The objective would be to adopt a cross-cutting approach for all public entities.

After identifying the types of contract that exist in practice in the public sector, consideration could be given to the concept of control, the distinction between a lease and a service contract, an assessment of the contract from the lessee’s and lessor’s standpoint, and to the borderline with contracts for the provision of public services (concessions, PPP, etc.).

This project addresses accounting for contracts rather than for specific public entity assets or liabilities. It may therefore lead to the proposal to develop a standard on leases for inclusion in the Central Government Accounting Standards Manual, the Public Establishments Accounting Standards Manual and the future Local Authorities Accounting Standards Manual.



Central Government Accounting Standards Manual

Standard 7 “Financial Assets”

During the development of the Central Government Accounting Standards Manual, a distinction was made in Standard 7 “Financial Assets” between equity investments in controlled and non-controlled entities with a clear view to consolidating Central Government with its controlled entities. This distinction provides a basis for defining reporting date measurement methods. Thus, controlled entities are measured on an equity basis and non-controlled entities at acquisition cost.

CNOCP Opinion n° 2015-08 of 10 December 2015 adopted in the form of a regulation by Ministerial Order in January 2016, clarified certain requirements in Standard 7.

- > Comments have been added in the introduction explaining the situations in which Central Government’s control as a reporting entity over other entities is subject to restrictions or exclusions. These situations are the result of constitutional, organic law or legislative provisions defining specific governance scope separate from the reporting entity “Central Government” or effectively precluding Central Government from obtaining benefits from the activity of the entity concerned. This applies in particular to “social security” and “local” sectors.

- > In addition to the restrictions on control mentioned in the previous version, the Standard identifies situations in which specific governance scope separate from the reporting entity “Central Government” precludes the latter from exercising control.

The discussions that took place in 2015 identified a certain number of difficulties.

In particular, there is the question as to whether the current definition of control of an entity is relevant in the public sector.

Possible changes in particular to generally used accounting terminology should also be considered: entities over which Central Government exercises exclusive control or a significant influence.

Lastly, the project on recognition and measurement of Financial Assets should take account of any discussions on the combination of Central Government’s accounts with those of its main operators.

Standard 1 “Financial Statements”

As a certain number of Standards have been amended since the creation of the CNOCP, a review of Standard 1 “Financial Statements” seems appropriate. Standard 1 brings together all the requirements of the Manual in the form of a standard presentation of the financial statements. The Standard also includes requirements for the notes. The project will need to take on board the outcome of discussions on the boundaries of the notes and the publication of any special reports.



Public Establishments Accounting Standards Manual

Development Projects

Codifying regulation n°93-115-M9-4 of 4 October 1993, implementing the budgetary and accounting reform applicable to public establishments for the development of new towns, lapsed on 1 January 2016. Since that date, these establishments are required to apply the Public Establishments Accounting Standards Manual.

Because of the specific nature of their activity, these establishments were up until now entitled to special accounting treatment including the following: providing for expense not yet incurred on a budget basis, use of the “percentage of turnover” method, which sounds similar to the percentage of completion method applied to long term contracts, but which in fact is a totally different concept. The notion of project used for accounting and management purposes may be freely interpreted by each entity.

In this context, a review of the activities of these public establishments is planned in order to determine if it is necessary to include additional requirements in the Public Establishments Accounting Standards Manual to take account of the specific scope of their development activity. This review could include an examination of the relevant national and international accounting literature applicable to public and private entities.

Topics included in the Work Program for 2015-2016 and subsequently abandoned

Last year certain topics were identified for inclusion in the Public Establishments Accounting Standards Manual.

■ Medium and long term investments

The examination of public establishments' cash showed they have no medium and long term investments. We propose to remove this topic for which there is no specific demand.

■ **Biological assets / agriculture**

The guidance provided by the Public Establishments Accounting Standards Manual is sufficient to make the distinction between fixed assets and inventory for biological and agricultural assets. Moreover, there are no particular issues in respect of the measurement of the cost of these assets. We therefore propose to remove this topic from the Work Program.



Future Local Authorities Accounting Standards Manual

Process

In 2014, the Council began the development of the model for local authorities' financial statements and the review of their accounting principles, which were undertaken by two separate working groups.

The first working group is in charge of improving the clarity of local authorities' financial statements and its objective is to propose a model for the presentation of the financial statements (balance sheet, income statement and notes), which is simple, clear and, where applicable, auditable.

The second working group has identified major areas where an improvement to the local authorities' accounting principles is required. These include, for example, the notion of the control of assets, depreciation, the scope of provisions and budget adjustments.

This review will provide a complete picture of the status quo including a comparison with other public sector frameworks and establish broad guidelines for taking the project forward, possibly in the form of a Local Authorities Accounting Standards Manual similar to those developed for Central Government and public establishments.

With this in mind, the CNOCP proposes the creation of working groups by topic in order to develop the Standards for inclusion in the future Manual. This work will be guided by the objective of achieving improvements in the quality of accrual accounting for local authorities within the existing budgetary and accounting framework. It will also take on board the work carried out since 2013 on the Conceptual Framework for Public Accounts, which is due to be published in 2016.

In accordance with the NOTRé Law, the French Government Audit Office ("la Cour des comptes") is organising audits of local authorities' accounts on a trial basis in cooperation with the regional audit offices (the "chambres régionales des comptes"). The question arises as to which accounting framework is applicable for the purposes of these trial audits. It appears that, for the purposes of this experiment, authorities are encouraged on a voluntary basis to adopt the budget and accounting framework M.57 by 2020 at the latest. The regulation M.57 is applicable to single territorial authorities, cities and their administrative establishments and was last amended by the Order of 21 December 2015. This regulation will be examined in developing the Accounting Standards Manual wherever its provisions may affect the application of accounting principles and standards even if it is only presented in the form of a "chart of accounts". Audit requirements for a reporting entity are based on a set of

principles and standards used to prepare the accounts on which the auditor gives his opinion. His opinion refers to these principles and standards. The requirements of Central Government and national Public Establishments Accounting Manuals are specified in regulations drawn up by the relevant department that provide a summary of accounting entries and the chart of accounts. Regulation M.57 could, on that basis, be used to specify the accounting standards developed for the Local Authorities' Manual, provided the accounting conventions underlying the chart of accounts are approved in the course of the project.

The project will also address the scope of the budget adjustment mechanism. Whilst it appears reasonable to leave each authority the choice of making budget adjustments, their option should, in theory, reflect the type of funding used. Consideration should be given to developing a methodical approach to budget adjustments and could take place in parallel to the development of the Manual. Priority is given to a thematic approach common to all authorities instead of the current situation which is a rules-based approach for each type of authority.

Lastly, for each Standard, a list should be drawn up of the legislation and regulations above it in the legal hierarchy in order to identify any provisions in conflict with the Council's proposals.

Standards to start with

We propose to follow the example of Central Government and Public Establishments Accounting Standards Manuals by starting with Standards which have already been discussed by the above-mentioned working groups or are dealt with in Opinions previously issued by the Council:

- > Standard 1 on Financial Statements
- > Standards dealing with financial assets and liabilities:
 - o Standard 10 – Cash Components
 - o Standard 11 – Financial Debts and Derivative Financial Instruments
- > Standard 6 on Tangible Assets, although an approach by topic to be defined may be adopted because of the density of the subject matter in this Standard.



Other Local Public Sector Issues

Accounting framework for public healthcare establishments²

In accordance with its policy of harmonizing accounting standards for public sector entities, the CNOCP is undertaking a review of the accounting framework for public healthcare establishments and on 10 December 2015 issued a first Opinion on Budget and Accounting Regulation M.21 which includes proposals to amend five of the regulation's requirements.

In 2016, the CNOCP will pursue its examination of the regulation's requirements with reference to the different accounting standards applicable to the public sector. The CNOCP will determine whether any divergences are due to specific features of public healthcare establishments or whether they should be eliminated in order to achieve the convergence of accounting standards in the long term.

On completion of the review, providing there are no specific features that would prevent public healthcare establishments from being included in the scope of the Public Establishments Accounting Standards Manual, a proposal for inclusion will be made accordingly. Under this assumption, Budget and Accounting Regulation M.21 would set out any specific features of public healthcare establishments and include transitional provisions, if necessary, for subjects with a significant financial impact.

Accounting framework for Crédit Municipal banks

Crédit Municipal banks are communal public credit and social aid institutions. Their principal mission is low interest rate pawn broking; they have also developed a wide range of banking services.

Crédit Municipal banks are subject to two different sets of accounting requirements because of their mixed status of local public establishment and credit institution³. This is a source of problems.

² Although public healthcare establishments are subject to Social Security funding law, for operational reasons the development of accounting standards for healthcare establishments has been entrusted to the CNOCP's "Local Authorities and Local Public Establishment Committee".

³ It should be noted that in accordance with the provisions of Article R.514-33 of the Monetary and Financial Code, Crédit Municipal banks "*shall keep their accounts in accordance with the chart of accounts defined by Joint Order of the Budget Minister and the Minister of the Interior*".

In the first place, the CNOCP received a request to simplify the accounting requirements applicable to the Crédit municipal de Paris. Consequently, the CNOCP set up a working group to deal with this request whilst extending its scope to all Crédit Municipal banks and not just the Paris branch.



Social Security Organisations

Post-employment benefits

The accounting treatment of post-employment benefits in the books of the entities that manage post-employment benefits schemes has been under discussion since the end of 2014. After examining the system in operation for all employees in the private and public sectors in France, the preliminary conclusions indicate that the pay-as-you-go system does not give rise to an actuarial liability in the accounts of pension funds. Indeed, the funds' obligation is limited to the financial year and the pay-as-you-go system only gives rise to an obligation to pay post-retirement benefits within the limits of available future resources. This analysis confirms the current method of accounting for post-employment benefits in France under which the latter are recognised as an expense in the period in which they are paid and contributions received in the same period. In the course of 2016, these principles could be adopted in an Opinion of the CNOCP.

Discussion of additional disclosures will continue in conjunction with work on the notes and any special reports.

There is an issue as to whether an actuarial estimate of future benefits or discounted funding requirements should be disclosed. Another question relates to the frequency of reporting prospective information. Lastly, the relevant level of aggregation of reported information must be considered, because the resources of an individual fund do not only come from contributions but may also include demographic transfers and allocated taxation, etc.

Recognition and disclosure of multi-annual benefits

The analysis carried out by legal specialists from the Social Security Directorate, in order to clarify the normative framework applicable to the activities of Social Security Organisations, provides an understanding of the nature and effects of Social Security obligations towards insured persons, in particular with regard to multi-annual benefits. Consequently, we propose to set up a working group to define multi-annual benefits and their accounting treatment.

Disclosures to be made in the notes of Social Security Organisations

In conjunction with the project on the notes to the financial statements of public entities and the working group on post-employment benefits, we propose a project on improving the quantity and quality of information provided in the notes of Social Security Organisations with particular emphasis on the different benefits provided.

The Public Sector Accounting Standards Council will undertake the above-mentioned projects on receipt of the official request from the Social Security Organisations' auditors ("Cour des comptes", "Compagnie nationale des commissaires aux comptes").

Topic included in the Work Program for 2015-2016 and subsequently removed: recognition of recovery transactions

Following the observation of disparities in the accounting policies adopted for recovery transactions by Social Security Organisations, the Social Security Directorate planned in previous years to refer a draft order to the Council clarifying these policies in the Single Chart of Accounts for Social Security Organisations (PCUOSS). The topic was at the time identified as concerning 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 schemes resources as well as the resources allocated by law to other organisations. The Social Security Directorate, which has questions about the prescriptive character of such provisions, will make a presentation to "Social Security and Similar Organisations Committee".



International Projects

IPSAS Board's consultations in 2016

The IPSAS Board published two Exposure Drafts at the beginning of 2016 to which the CNOCP will respond. It also plans to respond to the other consultations set out below.

■ Exposure Draft 59, *Amendments to IPSAS 25, Employee Benefits*

The proposed amendments are based on the version of IAS 19, *Employee Benefits* revised in 2011, which is the IFRS equivalent of IPSAS 25 for the private sector. The issues raised by the IPSAS Board in this public consultation relate to the relevance of the proposed amendments. The comment period is closed at the end of April 2016.

■ Exposure Draft 60, *Public Sector Combinations*

This Exposure Draft is a follow-up to the Consultation Paper issued in 2012. It sets out to classify public sector combinations as either amalgamations or acquisitions. It adopts an approach similar to that of IFRS 3, *Business Combinations*.

The comment period is closed at the end of June 2016.

■ Other consultations

The IPSAS Board has included the following subjects in its work program which might give rise to the publication of a consultation paper:

- in 2016 :
 - > Consultation Paper, *Revenue*
 - > Consultation Paper, *Non-Exchange Expenses*
 - > Consultation Paper, *Heritage Assets*
 - > Consultation Paper, *Public Sector Financial Instruments*
 - > Exposure Draft, *Leases*
 - > Exposure Draft, *Update to IPSASs 28-30, Financial Instruments*

- in 2017
 - > Exposure Draft, *Social Benefits*
 - > Consultation Paper, *Public Sector Measurement*
 - > Consultation Paper, *Infrastructure Assets*

Translation of IPSAS Standards

In conjunction with the Governing Council of Chartered Accountants (CSOEC) and the National Company of Auditors (CNCC), the Council will pursue its project, which began in 2012, of translating IPSAS standards into French. The objective for the first quarter of 2016 is to send the IFAC⁴ a complete set of IPSAS standards based on the publications of the IPSAS *Board* up until 2013 (*Handbook 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. A review of standards IPSAS 1 to IPSAS 24, the translation of which dates back to 2007, has therefore been undertaken. This translation including the harmonisation of terminology was completed at the beginning of 2016.

The translation of the *Handbook 2015* is planned on the basis of the same organization including the partnership with the CSOEC and the CNCC. A new agreement with the IFAC should be signed with a view to delivering the French version of the Handbook during the first half of 2017.

Participation in IPSAS *Board* meetings and working groups

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 2016, four four-day meetings will be held, mostly in Canada.

The General Secretariat of the Council also took part in the IPSAS *Board* working groups on “*Social Benefits*”, “*Emission Trading Schemes*,” “*Revenue*” and “*Expenses*”. In this role, the General Secretariat is called upon to review staff papers and make written contributions.

EPSAS Project

The European Commission launched the EPSAS (European Public Sector Accounting Standards) project in the wake of its report assessing the suitability of International Public Sector Accounting Standards for Member States drawn up in application of the provisions of Article 16-3 of Council

⁴ IFAC: *International Federation of Accountants*.

Directive 2011/85/EU of 8 November 2011 on the requirements for budgetary frameworks for Member States.

A new phase of the project conducted by Eurostat has commenced with the launch on one hand of a “*Working Group*” made up of the representatives of Member States and on the other hand of “cells”. The latter are small sub-groups that are offshoots of the main “*Working Group*” with specific issues to address. The General Secretariat of the Council is a member of the French delegation that takes part in the “*Working Group*” and in the “cells”.

At this stage, three cells are active:

- > The first cell is working on the first-time adoption of accrual accounting and on the definition of the elements of financial statements. An interim report was presented at the first meeting of the “*Working Group*”, the final report is due to be presented in mid-2016.
- > The second was set up to develop the underlying principles for EPSAS governance.
- > Lastly, the third was set up at the beginning of 2016; its objective is to define accounting principles.

The CNOCP takes part in this work in liaison with the Interdirectorate Committee for International Public Sector Accounting Standards, which is responsible for coordinating the positions of French participants. The General Secretariat of the CNOCP acts as secretary to this Committee.

Lastly, at the request of Eurostat, the CNOCP will organise the “*Working Group*” meeting on the 7 and 8 July 2016 in Paris, at the Ministry of Finance and Public Accounts.

Annual OECD Public Sector Accruals Symposium

Each year, the Council has the opportunity to provide input to all public sector standard setting issues at the “Annual OECD Public Sector Accruals Symposium”. The conference provides an opportunity for the representatives of the Finance ministries of OECD countries to discuss current accounting reforms. In 2016, the 16th Symposium was chaired by Michel Prada. The CNOCP presented the issues raised by the subject of “*Social Benefits*” in respect of the pay as you go mechanism specific to France, and which may be misunderstood in an Anglo-Saxon environment.

International Forum of Public Sector Accounting Standard Setters

A new discussion forum for public sector standard setters including the IPSAS *Board* met for the first time in March 2016. The first meeting and the launch of the Forum were organised by the Government Accounting Standards Board (GASB), the American Standard Setter for federal states and local governments, with the support of the IPSAS *Board*. The CNOCP is a member of the Forum.



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