

# Public accounting in France

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**Abstract:** The article deals with the public accounting in France. Therefore, the article pays the attention to the explanation of this concept, its legal regulation, crucial principles, functioning in practice and presentation of basic subjects of this concept. However, the contribution also contains a critical evaluation of this model, as well as its historical genesis. The author is based on French publications mainly by Professor Michel Bouvier and the FONDAFIP association created by him. The author also draws on other professional publications devoted to French public accounting.

**Keywords:** Accounting, Public Accounting, France, Public Administration

**JEL Classification:** M40, M41, M48

## 1 Introduction

At first glance, the public accounting (i.e. *la comptabilité public* in French) could be compared to the area regulating budgetary law of finance (in the broader sense of the word) in the public sphere. However, this inaccuracy does not avoid the French society, which is still not always completely clear on the term in question. In fact, the term “public accounting” is a generic term that is used to denote a set of provisions relating to the financial and accounting structure of public entities.

Regarding the systematic inclusion of public accounting in the French law of public finance (or rather public financial law), it is necessary to state that public accounting is a legal sub-branch of the French law of public finance and therefore it is placed at the level of other sub-sectors, such as budgetary law, or tax law. (BOUVIER, 2017, s. 20)

Nevertheless, public accounting cannot be denied a significant connection with budget law, or rather budgeting, which in France since 2006 can be characterized as performance and multi-year budgeting. The French state budget is divided into three basic accounts – the general account, 2 attached accounts and 32 specific accounts. (CATTEAU, 2007, 42) At the level of the state the public accounting is most evident in the framework of the so-called general account of the state.

The public accounting is primarily financed by public mandatory benefits, which are strictly regulated. The public accounting is intended for the further management of public funds by the relevant persons. It is a system that is presented across the entire French public sector, and which naturally reflects the decentralized organization of French public administration starting at the state level, continuing through French territorial self-governing units (i.e. regions, departments, municipalities) and ending with French public institutions (including e.g. public hospitals). A specific feature of the French concept of the public accounting is the fact that it is essentially taken over from the private sphere.

## 2 Methods

The aim of the article is to present an integral and traditional part of the French concept of public finance law, namely the public accounting. The article therefore presents the legal framework of the mentioned sub-branch of public finance law, its core principles, the essence of its functioning and its comparison with accounting from the private sector. For this purpose, the descriptive method is used, which is further interspersed with the method of analysis and comparison.

As for specialized literature, due to the absence of any domestic literature in the given area, it is necessary to proceed from foreign specialized literature. In this context, the French literature and the work of leading French theoreticians and practitioners, represented among others by Professor Bouvier or the former Minister of Finance and later Senator Alain Lambert, are naturally offered.

## 3 Research results

The third chapter deals with the very essence of public accounting. In the first subsection, the legal framework of French public accounting is presented, in the second subsection, the functioning of public accounting is presented, and in the third subsection, a comparison of public accounting with private sector accounting.

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### 3.1 The Legal Framework of the French Public Accounting

The public accounting in France is regulated by two main acts. The first of the crucial acts, the *Loi organique relative aux lois de finances* (hereinafter referred to as "LOLF"), also referred to as the French financial constitution, reformed the original organic regulation from 1959. The LOLF has completely reserved one of its chapters (chapter V) for the management of state accounts (or public accounting), when in Article 31 it entrusts the public accountant with a monopoly on account management. According to the Article 27 of the LOLF, "*state accounts must be accurate, true and must present a true picture of the state's property and financial situation*" and further that the public accountant is "*responsible for compiling state accounts and ensures compliance with public accounting principles*." LOLF puts "*performance*" in the first place through the entire public sector (either within its management or its economic activities). Performance, as the ability to achieve expected results, is the very essence of the new French budgetary framework. Therefore, both the efficient operation of the public administration and its transparency are taken care of. The transparency became the new motivation for the modified model of French public accounting. For this reason, the French state budget in the LOLF regime is no longer presented according to the nature of the expenses (e. g. expenses for employees or for the operation of a public entity, expenses for investments, etc.), but since 2006 according to the so-called public policies (*les politiques publiques*, e.g. culture, justice, healthcare). As regards the mentioned performance, every year the French government prepares the so-called annual performance proposal (*le projet annuel de performance*), which consists of its intention of how it plans to use the funds. These annual performance proposals are attached to the draft financial law (i.e. the state budget act) in October of the previous year for which the budget is drawn up. The government then presents the so-called annual performance report (*le rapport annuel de performance*) in June of the year following the year for which the report is prepared. The annual performance report presents and clarifies the actual results regarding the government's activities during the given period. It is thus an instrument of comparing not only the forecast (performance proposal), but also the evaluation of the implementation of the budget, the assessment of performance indicators and the actual total expenditure of the state for the previous year.

The second crucial act in the renaissance of French public accounting was the constitutional act of July 23, 2008, referred to as the "modernization of the institutions of the Fifth Republic". As a result, a new principle related to financial and accounting transparency was included in the French Constitution: "*Public administration accounts are accurate and true. They give a true picture of the economic results, assets and financial situation of the public administration.*" In other words, the French Constitution was modified in such a way that it was supplemented with *de facto* the same terms with which LOLF operates.

The only decree among the legal regulations concerning the field of public accounting was the Decree of November 7, 2012, on budget management and public accounting (hereinafter referred to as the "GBCP Decree"), which replaced the Decree of December 29, 1962, on the general regulation of public accounting (hereinafter referred to as "RGCP Decree") and, thanks to its Article 53, was mainly responsible for defining the concept of public accounting, which it defined as follows:

*"Public accounting is a system of organizing financial reporting that allows:*

- 1) to understand, to sort, to register and to control data on budget, accounting operations, as well as on state treasury operations, in order to ensure accurate and truthful account management;*
- 2) to submit financial statements showing a true picture of assets, financial situation and economic results as of the end of the budgetary year;*
- 3) to contribute to the calculation of the expenditure of activities or services, as well as to the evaluation of their performance. Public accounting is also organized in a way that allows these operations to be processed through national accounts."*

The GBCP decree extended the provisions of the LOLF to all public entities and at the same time became the starting legal basis for adjusting the position of the two basic actors of public accounting, i.e. the originator (*l'ordonnateur*) and the public accountant (*le comptable public*).

It was the GBCP decree that provided the legal framework for providing accurate information on the property situation of public entities, on their financial obligations and, last but not least, on their solvency.

### 3.2 The Functioning of the French Public Accounting System

The aforementioned GBCP decree confirmed a number of provisions that had been applied only experimentally until then. That is why the decree was a fundamental shift. This also meant the culmination of a long-term effort aimed at providing more and more accurate information about the property situation of public entities, about their financial obligations, as well as about their solvency.

These information needs are directly linked to the financing of public entities and further to the growing use of financial markets or the banking system. Therefore, over the years, this new concept originating directly from the private sector has been introduced as a default model for French public entities.

As a result of bringing public accounting closer to corporate accounting, accounting standards have also been harmonized. The Public Accounts Standardization Board has established accounting rules applicable to public entities. Three collections of accounting standards have been issued in this area. The first collection of regulations concerns the accounts of the state, the second collection of accounts concerns the accounts of public institutions and the third collection from 2016 concerns the accounting standards of territorial self-governing units (André, 2016, 66).

The LOLF introduced the accrual accounting model in public administration with "rules that differ from the rules used in the private sector only by the specificity of public activity". In other words, the state's main account is established according to a new accounting concept, which is largely inspired by the practice of businesses, or other international public accounting concepts that simultaneously take into account the specificity of the state. The concept of the LOLF allows for a clear and concise reading of the state's accounts. Therefore, it can be stated that this accounting reform enriched French society and at the same time restored the comprehensibility of financial information in the public sector.

It has already been mentioned that public accounting in France affects the budgets of the entire public sector, and at the state level it mainly affects the so-called main account of the state. Since 2006, an annual financial statement containing the following financial statements has been drawn up in connection with the main state account:

- 1) balance sheet: it shows the difference between assets and liabilities. Assets represent property values of the state, liabilities represent obligations of the state towards third parties.
- 2) profit and loss statement: it is made up of three overviews that show the total costs and revenues of the accounting period.
- 3) statement of cash flows: it is a traditional overview of cash flows, which are divided into three categories - cash flows associated with the activities of the state, cash flows associated with investment operations, cash flows associated with financial operations.
- 4) annex: it provides additional information for understanding the accounts of the state. It mainly contains an explanation and calculation of off-balance sheet liabilities. In this direction, we can find here, for example, an assessment of the pension obligations of civil servants.

The aforementioned financial statements established in the so-called main accounting (i.e. the accounting of the so-called main account of the state) contribute to a better understanding of the financial and property situation of the state. In addition, the above-mentioned financial statements provide additional basis for the evaluation of so-called public policies and thus appropriately complement the government's annual performance reports, which are submitted to the French Parliament. At the same time, these financial documents are necessary for the creation of the government's proposal for a financial law (i.e. the law on the state budget). The aforementioned financial statements are also beneficial for individual ministries, as they give them a better opportunity to analyze individual expenses associated with their departments and at the same time have a better overview of the assets they manage.

Public accounting in France is based on two core principles, namely the separation of the functions of the public accountant and the principal of the operation within the financial sector, and the personal and financial responsibilities of the public accountant.

French public accounting entrusts the monopoly of operations relating to public revenue and public expenditure to two basic entities: the originator and the public accountant. Their tasks complement each other and at the same time are independent of each other. At the same time, their tasks must be organized in such a way as to enable mutual and continuous checks between these entities.

The originator is essentially the legal representative of the relevant public entity for which he performs his function. He has exclusive authority in the area related to the adoption and appropriateness of decisions that have financial implications. Therefore, he is also the only entity who can issue spending orders and sign revenue claims within the relevant public entity. Orders for expenses, or income claims represent the individual order of payment of needs, or obtaining funds that are made available to the public accountant.

The second important principle of public accounting is the personal and financial responsibility of the public accountant, which is characteristic of French public accounting. This responsibility is established in the Article 17 of the GBCP decree, which stipulates that all public accountants, after being appointed to their position, are "*personally and financially responsible for their actions and supervision, which is due to them according to Articles 18, 19 and 20*" of the

same decree. Any violation of these provisions on their part or on the part of persons under their authority is liable to result in their personal and financial liability, under the conditions set out in Article 60 of the aforementioned decree.

In the relationship between the originator and the public accountant, it is necessary to mention another important entity, namely the person of the so-called judge of accounts. In practice, the French Court of Auditors and the regional chambers of accounts are the guarantors of the correctness of operations with public revenues and public expenditures. The task of the judge of accounts is to determine, by means of a review of the relevant documentation, whether or not the public accountant made a mistake in the performance of his tasks. In the case that the public accountant erred, the judge of accounts authoritatively states the existence of the debt, thereby activating the accounting liability and the public accountant is required to use his personal funds to repair the financial damage caused.

Accounting standards of the French public accounting are set by the Public Sector Accounting Standards Council (PSASC), which was established by the annual Budget Act on 30 December 2008. The PSASC has replaced the Public Accounting Standards Committee (PASC). Whereas the PASC regulated only accounting standards of the French government, the PSASC regulates accounting standards in the French public sector.

### **3.3 The Accrual Accounting in the Public Administration**

The French public accounting took over a lot of accounting practices from the accounting of business entities. This is demonstrated by a number of examples in which public entities demonstrate their interest in the transfer of private sector accounting practices to public sector accounting. These are, for example, the following points:

- expenditure supervision,
- payment of debts,
- knowledge of the public entity and its relations with other authorities,
- control and operating of property,
- preventing difficulties and risks (for assessing the budgetary sustainability of the public entity, as well as for potential public intervention, or for choosing the appropriate management regime).

Just like a business entity, a public entity is also able to use accounting in the performance of its functions and further fulfill the importance that a business entity attributes to financial reporting. However, the translocation of the accounting of a private entity into the public administration naturally has its limits.

Although (and not only) French public entities are more focused on budgetary issues, it is necessary to note the speed with which they adapted to the accounting of business entities and within a few years made considerable progress in documenting and in the continuous monitoring of their property situation.

However, all these favorable developments cannot completely overshadow the dubious, almost hostile reactions of a number of public entities who still do not see, especially in the context of the significant reduction of public funds to which they are increasingly exposed, how the introduction of accrual accounting could be useful for them in their daily life.

Despite appearances and a number of official statements, the adoption of business accounting by French public entities will, in practical use, be different from the accounting used in the private sphere, for reasons related to the concept of public administration and the nature of the activities it performs, as well as its financing.

The first difference between French public accounting and the accounting of business entities is dual accounting structure of French public accounting. On the one hand, we are talking about the so-called "administrative accounting", which is the exclusive domain of the person ordering the operation. This area is made up of accounting for obligations, accounting for the consumption of budget funds and accounting for usable public funds. On the other side, there is "general accounting", i.e., the area led by a public accountant, which traditionally has a profit and loss statement, a balance sheet and an appendix. However, this duality led to the fragmentation of the information system of public entities, and what is worse, this duality led to the "impermeability" of these two areas. So, while for a business entity its accounting functions as a coherent system for recording, monitoring and reporting financial information, for a French public entity the section of the person ordering the operation, or the section of the public accountant each has its own rules governing their specific tasks, which, however, prevents any synthesis of the French model of public accounting.

Another difference between accounting in the public sector is the fact that the economic model of a public body is quite different from the economic model of a business entity. Business entities incur costs to generate revenue, and their performance is assessed relatively simply by profit, which rises as turnover is maximized and declines as costs rise faster than revenue. However, the essence of most public entities lies in the completely opposite functioning, since public

entities were created to consume or distribute public funds intended to satisfy the demand for public services (*services publics*). Under these conditions, their performance gradually increases and their account balance becomes zero or even negative.

It is the same with the investment of these entities. In the case of business entities, the capital is intended to achieve additional income, or to reduce production costs. In the case of public entities, on the contrary, investing is intended to increase their potential to perform the relevant public service. Another fact related to this is that investments in public entities often lead to the creation of future cost flows and therefore future expenses that will have to be financed.

The absence of a relationship between revenues and expenses means that the profit and loss statement of most public entities appears to be insufficient to evaluate their performance. As a result, their financial statements rarely provide relevant and actionable information about the added value they create or the services they provide.

Benefits of the public accounting include better financial information about the public sector,

The negative of the French model of public accounting is a separation of the function of the public accountant and the originator. The disadvantage of this model is the excessive formalism, the cumbersome procedures of these two entities, the redundancy of tasks and controls or the unnecessary use of employees. Critics further state that this antiquated nature of the current system has long since disappeared from the private sector. According to these critics, the most negative element associated with the separation of functions of the public accountant and the originator today lies in the fact that it leads the originator and his colleagues to lose interest in accounting itself. For this reason, one can observe different delays on the part of managers in the public sector compared to their colleagues in the private sector in using the information they can draw from accounting.

#### 4 Conclusions

The paper dealt with one of the legal sub-branches of French financial law, or more precisely, French public financial law, namely public accounting. It was pointed out the historically traditional role of public accounting in the French public finance system and its close connection, or the connection with budget law, as well as the system of inclusion of public accounting within the framework of French public financial law.

In the article dealing with the legal regulation of public accounting in France, the cardinal reform of 2006 was mentioned, which, apart from budgetary law in France, also significantly affected public accounting. This reform smoothly followed on from the general reform of the state administration ("*Révision générale des politiques publiques*"), which was successfully implemented a year earlier. In connection with the aforementioned reform of budget law, or of public accounting, valid and effective legal regulations were mentioned, which can be described as pivotal in the given area.

Furthermore, the functioning of public accounting was described, including its two core principles, on which public accounting in France has been built for a long time. Although perhaps unusual from our point of view, the principle of personal and financial responsibility of the public accountant was introduced, as well as the principle of separating the functions of the person ordering the operation and the public accountant. However, it is precisely the second of these principles that is still being criticized in France. However, taking into account, among other things, the reform of public accounting that has already taken place, I do not think that this principle, which is already firmly linked to the traditional French model of public accounting, would change fundamentally.

After the reform of 2006, or with the introduction of LOLF, the central motive of the state administration became the efficiency of its management with regard to the most efficient results of public management. In this effort, public accounting plays its irreplaceable role, where one can observe a deviation from the concept of control of the activities of the relevant public entity (resulting from the original Decree on the general adjustment of public accounting from 1962) to the concept of financial reporting, or financial transparency of a public entity in the LOLF regime. Furthermore, the role and activities of the main actors (including the control authority) who apply the legal norms governing public accounting in France were presented. Last but not least, attention was also paid to the accrual system of accounting (which is adopted from the private sector), on which the French concept of public accounting is based. It was demonstrated how this concept manifests itself at the level of the state budget, specifically within the so-called main account of the state.

Attention was also paid to the natural differences in the management of entities from the private and public sectors, as well as to the different tasks of these entities with regard to their area of management. Furthermore, the factual differences of the French concept of public accounting with regard to the accounting of entities in the business sector were analyzed. The French professional or lay public is far from united as to whether public accounting is the most effective instrument for managing public funds, or for effective management of them. To a certain extent, this may seem

paradoxical, since it was the French Financial Institute (LOLF) that first introduced, through the entire public sector, the "performance" aspect of public administration. Whether it is performance, assessed as the efficiency of handling public funds, or the efficiency of public administration in a broader sense, this performance is always subsequently evaluated on the basis of specific results. However, this system is the target of criticism, as performance and achieved results are the most important aspect for the French system. The subsequent evaluation is only interested in the achievement of results and the ways in which these results were achieved, or side effects that were, or only in the future will they be evoked by the chosen methods. This system thus gives a very wide field of action especially to economists, analysts and statisticians who evaluate and assess the mentioned results.

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