

RÉPUBLIQUE FRANÇAISE



**AUDIT OPINION ON THE FINANCIAL
STATEMENTS
OF THE CENTRAL GOVERNMENT**

FISCAL YEAR 2009

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This report is the result of the work carried out or overseen by:

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- M. Houri, counter-rapporteur;

The magistrates and rapporteurs responsible for cycles and sub-cycles: Mrs Briguet, Vergnet, Messrs Dahan, Lair, Lefas, Monier, Vermeulen, Thérond, Viola, Masters of the Court; Messrs Champomier, Gruson, Guillot, Lion, Soubeyran, Rouque, Assistant Judges; Messrs Dussoubs, Herbin, Brouillet, auditors; Mrs Baillion, Bonmartel-Couloume, Girard-Reydet, M. Vareille, rapporteurs.

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The rapporteurs for the evaluation reports on the accounts following interim audits: Mrs Perin, Wirgin, Messrs Aulin, Gruson, Savy, Tricaud, Assistant Judges; Mme Baldacchino, Messrs Brouillet, Dornon, Imbert, Marcovitch, Mory, Péhau, auditors; Mrs Clérici, Planté, Villiers, Tison-Vuillaume, Messrs Capini, Dauvé, Lanuit, rapporteurs; Mrs Barro, Février, Gandin, Mr d'Inca Le Pann, assistants.

The certification act was deliberated by the "Performance of the Central Government's Budget and Accounts" interchamber committee chaired by Mr Babusiaux, Chamber President, in the presence of Mr Alventosa, Master of the Court and General Rapporteur, Mr Houri, Master of the Court, counter-rapporteur for the purpose of the Audit Opinion, Mrs Briguet, Seyvet, Vergnet, Messrs Dahan, Gauron, Lefas, Lefebvre, Mayaud, Monier, de Mourgues, Piolé, Thérond, Vermeulen, Masters of the Court, Members of the interchamber committee, and Mr Vallernau, Advocate General.

This document was prepared by the *Cour des comptes* as part of the role assigned to it by Article 47-2 of the Constitution and reaffirmed in the constitutional revision of 22 July 2008, namely to assist the Parliament and the Government in overseeing the enforcement of the Budget Acts.

In that same article, the Constitution now stipulates: “The financial statements of the public authorities must be lawful and truthful. They must give a true and fair view of the results of their management and of their assets and financial position.

With respect to the Central Government, Article 58 of the Constitutional Bylaw on Budget Acts (LOLF) the *Cour des comptes* has a standing order to certify the lawfulness, truthfulness and fairness of its financial statements and to accompany such certification with a report on the audits performed.

In attendance: Mr Migaud, First President, Messrs Pichon, Picq, Babusiaux, Hespel, Mrs Bazy-Malaurie, Ruellan, Messrs Descheemaeker, Bayle, Chamber Presidents, Messrs Sallois, Hernandez, Mrs Cornette, Past Chamber Presidents, Messrs Billaud, Berthet, de Mourgues, Hourri, Richard, Devaux, Arnaud, Rémond, Gillette, Duret, Ganser, Martin (Xavier-Henri), Monier, Troesch, Théron, Mrs Froment-Meurice, Bellon, Mr Moreau, Mrs Levy-Rosenwald, Messrs Moulin, Lebuy, Lesouhaitier, Cazala, Gauron, Frangialli, Andréani, Mrs Fradin, Messrs Braunstein, Brochier, Mrs Saliou (Françoise), Messrs Levy, Bernicot, Mrs Ulmann, Messrs Vermeulen, Tournier, Mrs Darragon, Messrs Bonin, Vachia, Mrs Moati, Messrs Cossin, Lefebvre, Messrs Aubin-Saulière, Messrs Sabbe, Pétel, Valdigué, Martin (Christian), Ténier, Lair, Hayez, Corbin, Mrs Froment-Védrine, Messrs Ravier, Rabaté, Ménard, Korb, Mrs Dos Reis, Mr de Gaulle, Mrs Saliou (Monique), Messrs Guilbert, Piolé, Uguen, Guédon, Mrs Gadriot-Renard, Messrs Bourlanges, Le Méné, Dahan, Mrs Malgorn, Messrs Sépulchre, Antoine, Mrs Bouygar, Vergnet, Messrs Hernu, Chouvet, Viola, Clément, Machard, Mrs Cordier, Messrs Le Mer, Rolland, Masters of the Court, Messrs Zeller, Cadet, Cazenave, Master of the Court in Special Service, Mr Alventosa, Master of the Court, General Rapporteur, Mr Lefas, Master of the Court in charge of the external audit teams for the Central Government Financial Statements.

In attendance and participating in the deliberations: Mr Bénard, Principal Attorney General, assisted by Mr Vallernaud, Advocate General

In attendance as rapporteurs and therefore not participating in the deliberations: Mr Blondel, Auditor and Mr Zerah, expert.

Mrs Mayenobe, Secretary General, provided the Court chambers secretariat.

Executed at the *Cour des comptes*, on 25 May 2010.

Introduction

The mission entrusted to the *Cour des comptes*

Pursuant to article 58-5 of the Constitutional Bylaw on Budget Acts (LOLF) of 1 August 2001, the *Cour des comptes* is entrusted with certifying the lawfulness, truthfulness and fairness of the financial statements of the Central Government. Its standing order to do so is part of its role to assist the Parliament and the Central Government in overseeing the enforcement of Budget Acts as set forth in Article 47-2 of the Constitution. The audit opinion issued by the *Cour des Comptes* is intended to inform Parliament, which is charged with approving the financial statements of the Central Government in accordance with Section III of Article 37 of the LOLF. It is also intended, more generally, for all users of the financial statements.

Certification challenges

The authors of the constitutional bylaw had recommended that the Central Government should acquire tools enabling it to assess its financial position and its holdings, to learn about its costs and to better value its results in order to improve its budget management and the performance of public policies. The certification of the financial statements is one such tool.

By deciding to certify the financial statements for the 2006, 2007, and 2008 fiscal years with a high number of qualifications, the *Cour des comptes* wanted to underscore its desire to adopt a constructive hand-holding approach for the gradual implementation of the accounting reform. 2009 confirmed that the Administration was making systematic dynamic efforts to obtain the removal of the reservations and through successive steps to achieve an unqualified opinion.

The main challenge today is the successful rollout of the *Chorus* software package within the administrations, the migration of all the accounting systems as defined in Articles 8, 27, 28, 29, and 30 of the LOLF, as well as the quick reliability-building of the various data that are processed through them. Failing that, *Chorus* would only be an avatar of *Accord* and of *Palier LOLF* and would not make it possible to implement all the provisions of the LOLF.

General account of the Central Government

The annual financial statements audited by the *Cour des comptes* retrace the transactions carried out by Central Government offices, establishments or institutions without legal personality. They include Public Authorities (primarily Parliamentary Assemblies, the Office of the President of the Republic and the Constitutional Council), as well as the supplementary budgets, public enterprise revolving fund accounts and all funds without legal personality but controlled by the Central Government. On the other hand, entities with legal personality are only included for up to the capitalised amount representing the rights held therein by the Central Government.

The general account of the Central Government consists of a balance sheet (referred to as statement of financial position), an income statement (including three parts: a schedule of net expenses, a schedule of net sovereign revenues, and a balance of transactions for the fiscal year), a statement of cash flows and the notes to the accounts. The latter, which is an essential part of the financial statements, provides the data and disclosures that are useful for the understanding and interpretation of accounting information. It includes, among other things, an assessment of the off-balance sheet commitments of the Central Government and preliminary information regarding the sustainability of public finances, such as the discounted financing requirements of the retirement scheme for Central Government civil servants and the special plans it subsidizes.

Bookkeeping and preparation of the financial statements

Public accountants are responsible for keeping the accounts and preparing the financial statements of Central Government. They ensure the truthfulness of accounting records and compliance with procedures, as set forth in Article 31 of the LOLF. This quality requirement with regard to the accounts implies the implementation of effective and efficient internal control and internal audit mechanisms as well as the truthful presentation of financial statements free of material misstatements, whether the result of errors, omissions, or fraud. Public accountants are also responsible for the selection and application of appropriate accounting methods and for providing reasonable for the circumstances estimates.

The general account of the Central Government for 2009 was approved by the director general of public finances on 4 May 2010 and certified by the minister for the budget, public accounts and state reform

on 12 May 2010. It was appended to the final budget review bill for 2009 along with this audit opinion.

Certification purpose

Certification is defined as a substantiated written opinion about the accounts of an entity expressed by and under the sole responsibility of an independent agency. It includes collecting the information needed to obtain reasonable assurance that the financial statements are, in all material respects, in compliance with the applicable financial reporting framework.

In accordance with Article 30 of the LOLF, the Central Government general account is governed by the same accounting rules and principles as those applicable to the private sector, subject to the specific nature of the Government action. These rules and principles were set out in the Central Government's accounting standards approved by the Order of 21 May 2004 and amended by the Orders of 17 April 2007, 13 March 2008, and 11 March 2009 based on the opinion issued by the Public Accounting Standards Committee, which became, in application of Article 115 of the 2008 Supplementary Budget Act of 30 December 2008, the Public Accounts Standardisation Council.

Basis of the opinion of the *Cour des comptes*

The *Cour des comptes* conducts its audits in accordance with the provisions of the Code of Financial Jurisdictions governing the certification of financial statements and by reference to the international auditing standards issued by the International Federation of Accountants (IFAC), subject to the obligations incumbent thereon as a financial jurisdiction. These standards imply the use of audit assertions in relation to operating flows, end-of-period account balances as well as the presentation, and information disclosed in the financial statements. In accordance with those standards, an auditor may not issue an unqualified opinion if material difficulties have been identified. There are two types of such difficulties:

- difference of opinion with the preparer of the financial statements regarding whether or not the accounting methods applied are acceptable, how those methods were applied or the relevance of the amounts and disclosures provided in the financial statements or uncertainties whose extent and scope may be the subject of disputes;

- limitations on the scope of the audits due to circumstances beyond the auditor's control which prevented the auditor from carrying out the checks deemed necessary thereby and for which the procedures engaged to collect audit evidence regarding items available to the auditor by default in the corresponding line items of the trial balance are preventing the auditor from forming an opinion in accordance with the audit assertions.

The *Cour des comptes* bases its professional judgement on the combination of degree and number of discrepancies, uncertainties, and limitations and decides whether to issue a qualified opinion, a disclaimer of opinion or an adverse opinion.

Based on the auditing procedures performed and reported at the end of this document, the *Cour des comptes* believes that it has collected sufficient audit evidence to support its opinion on the financial statements for fiscal year 2009.

I - Opinion of the *Cour des comptes* on the financial statements of the Central Government for 2009

1. The *Cour des comptes* is removing in full three qualifications it had expressed relative to the 2008 financial statements. In addition, two substantial qualifications relative to the 2008 financial statements have been satisfied for a portion of their components.

2. The *Cour des comptes* certifies that, with regard to the applicable accounting rules and principles, the Central Government's general account as at 31 December 2009 is lawful, truthful and gives a true and fair view of the financial position and holdings of the Central Government, subject to nine qualifications detailed in Part II. The first eight qualifications are of a substantial nature.

Removal of the qualifications expressed on the 2008 financial statements

3. As at 31 December 2009, the *Cour des comptes* is removing the first three non-substantial qualifications it had expressed on the 2008 financial statements concerning:

- Cash accounts;
- Other Central Government participations (primarily in international agencies and special purpose funds);
- Public service concessions.

4. Two substantial qualifications on the 2008 financial statements were satisfied for a portion of their components:

- With respect to the qualification regarding the implementing partners, the time taken release their financial statements;
- With respect to the qualification regarding the other end-of-period reports of assets and liabilities, the unallocated fixed assets and the joint financing of fixed assets related to the national road system.

Qualifications expressed on the 2009 financial statements

5. Two qualifications (No. 1 and No. 2) affect the Central Government's financial statements across the board. Two qualifications (No. 3 and No. 8) concern the participations of the Central Government. Three qualifications (No. 5, No. 7 and No. 9) are relative to tangible assets, intangible assets, and inventories. Two qualifications (No. 4 and No. 6) refer to the income, expenditures, and liabilities related to the ordinary business of Central Government.

Qualification No. 1: The features of the Central Government's financial and accounting reporting systems impose a general limitation on the scope of the audits by the *Cour des comptes* for fiscal year 2009. Numerous uncertainties remain with respect to the capacity of the new systems to solve the problems found by the *Cour des comptes* since 2006.

Qualification No. 2: Despite the progress made in 2009, the insufficient maturity of the ministerial systems for internal control and internal audit continues to prevent the persons in charge at the ministries from substantiating their assessments of the quality of the identification of accounting and financial risks and the extent to which they are controlled, for which the *Cour des comptes'* audits in fact show persistent deficiencies.

Qualification No. 3: A number of uncertainties and discrepancies continue to affect the identification of implementing partners and the quality of the financial statements of a very large number of them.

Qualification No. 4: The *Cour des comptes* found a number of uncertainties and discrepancies regarding the identification and recognition of liabilities and charges related to programme expenditure.

Qualification No. 5: Despite the significant progress made over the last three years, uncertainties and discrepancies continue to penalise the identification and valuation of the assets of the Ministry of Defence; in addition, the *Cour de comptes* continues to be faced with several scope limitations.

Qualification No. 6: Uncertainties and limitations still affect sovereign revenues considering the insufficient nature of the controls, substantiations, and analysis to which they are subjected by the preparer of the financial statements.

Qualification No. 7: The identification and valuation of the real-estate holdings of the Central Government and the period-end procedures that are applicable thereto continue to be affected by uncertainties.

Qualification No. 8: The difference of opinion relative to the non-reclassification of the Social Debt Redemption Fund (CADES) as a controlled participation of the Central Government could not be solved as at 31 December 2009. The decisions taken and the intents announced by the minister in charge of public accounts, designed to link CADES to the domain of social security, mark the beginning of a development in that sense, but do not modify as at the 2009 year-end, the analysis of the *Cour de comptes*, according to which the entity in question -- as the provisions governing it currently stand -- is controlled by the Central Government.

Qualification No. 9: Even though some major differences of opinion were solved in 2009, several irregularities continue to affect the identification and valuation of the fixed assets and inventories of the civil ministries (excluding concessions, real-estate holdings, and roads).

II - Detailed observations about the *Cour des comptes*' opinion

A - Qualifications regarding the 2008 financial statements removed for fiscal year 2009

1 - Cash accounts

6. As at 31 December 2009, the *Cour des comptes* is removing the qualification it had expressed for the two previous years regarding the keeping and substantiation of certain cash accounts.

7. The effective and accurate use of control models relative to the liquid assets of local governments and public institutions and to the balances of temporary or suspense accounts of Treasury correspondents now make it possible for the *Cour des comptes* to have sufficient appropriate audit evidence. Consequently, the limitations previously encountered in the audit scope have been removed.

8. The work conducted by the Public Finance Department and the Ministry of Defence on the advance accounts of the armed force units made it possible to decrease to an acceptable level the uncertainty weighing on the substantiation of those financial statements.

9. Despite some residual irregularities, the progress noted with respect to the quality of the daily accounting entries by the accountants of the financial administrations make it possible to remove the scope limitation previously encountered by the *Cour des comptes*.

2 - Other participations

10. As at 31 December 2009, the *Cour des comptes* is removing the qualifications for the previous fiscal year, regarding the valuation of the participations in international agencies, the accounting treatment of special purpose funds and the recording of the cost of the loans granted at a concessional rate.

Participations of the Central Government in multilateral funds and development banks

11. In accordance with its commitments, the Administration has reported at historic cost the gross value of the largest Central Government participations in international organisations for the amount of €14.3bn. It recorded an impairment loss through a method that takes into account the specificities of the participations concerned, leaving on the balance sheet the net amount €1.83bn.

12. The *Cour des comptes* duly notes the commitments made by the Administration intended to complete the inventory and reliability-building work in relation to the Central Government's participations in international agencies for a total remaining balance of €2.1bn and to adjust the unpaid portion of the capital of those agencies for a total amount of approximately €2bn, retraced as at 31 December 2009 to off-balance sheet commitments but presenting all the features of debt.

Participation of the Central Government in the IMF

13. Since 1 January 2006, the participation of the Central Government in the International Monetary Fund (IMF) had been capitalised up to the share of France in euros to which was charged the outturn, debit or credit, of the money-market transactions account which retraces the changes in the debt of the Treasury to Banque de France and the changes in the Treasury's claims on the IMF.

14. This practice which was contrary to Standard 7 has been discontinued. The capitalised amount of this participation which, at 31 December 2009, totalled €9.7bn corresponds to the Central Government's assets position with respect to the IMF represented by its share in euros and the incidence of the payments and repayments of the IMF's lending transactions to the member countries that the latter allocates at its discretion to France. At the end of fiscal year 2009, these transactions have always been combined with the participation, but the

Administration has committed to separate them into a dedicated account in 2010.

Special purpose funds

15. The Administration has made the commitment to complete in 2010 the analysis of all the entities likely to constitute special purpose funds of the Central Government with a view to guaranteeing that the financial statements contain accurate records thereof. It has also committed to revisit, for the following fiscal year and in agreement with the *Cour des comptes*, the impairment method applied to certain entities, including first and foremost the public guarantee funds managed by *Oséo*.

The cost of loans granted at a subsidised rate

16. The cost of loans granted at a concessional rate is now quantified in the notes. Indeed, unlike under the rules applied by other major OECD countries and by the European Union, under Standard 7 this cost, regardless of its nature, cannot be expensed. The assumptions made by the Administration, which will be subjected to an in-depth review for the following fiscal year, have led it to estimate this cost at €1.5bn.

Participation of the Central Government in Banque de France

17. The Administration has agreed to revalue to €1.975bn the amount of the participation of the Central Government in Banque de France¹, by including in its equity reserves of that nature.

18. The Administration and Banque de France made the joint commitment to clarify in 2010 the status of the revaluation reserves of the gold and foreign currency reserves of the Central Government, which are not taken into account as equity of Banque de France and totalled €20.5bn as at 31 December 2009.

¹) Until 2009, this amount totalled €8m and corresponded to the actual amount of the compensation paid to the shareholders at the time of the nationalisation of Banque de France in 1946.

3 - Public service concessions

19. As at 31 December 2009, the *Cour des comptes* is removing the qualification it had expressed for the three previous fiscal years regarding the inadequate recognition of the assets underlying public service concession contracts.

20. The work conducted by the Administration on the valuation of the concessions has led it, following the qualification expressed by the *Cour des comptes* on the 2006, 2007, and 2008 financial statements and as the minister in charge of public accounts had committed at the end fiscal year 2008, to review the interpretation it had given to Standard 6 with respect to the recording on the balance sheet of property under concession. It thus proceeded to value the assets under concession the recognition of which was justified based on the Central Government's control.

21. As at 31 December 2009, assets in the amount of €135.6bn were thus recorded for the first time in the balance sheet of the Central Government, for road (€125.4bn), railway (€6.9bn), airport (€2.9bn) and port (€0.4bn) concessions. As the *Cour des comptes* had requested, those assets were valued by applying the most suitable to methods according to their nature: historic cost for port and airport assets and railway equipment; new replacement cost for highway assets and railway tunnels.

22. The residual commitments of the Central Government under the rights granted to assignees are offset through non-financial liabilities. Since these rights are decreasing with the performance of the contract and end with expiration thereof, the corresponding liabilities are reversed on a straight-line basis over the duration of the concession. As at 31 December 2009, the liabilities thus recognised amounted to €38.5bn.

23. The Administration was unable to recognise the water power plants in 2009, in particular to the arbitrages due from EDF on the application of the recognition rules recommended by the IASB interpretation committee (IFRIC 12). It is however committed to do so for the current fiscal year. A disclosure in the notes to the financial statements refers to these plants, the stakes of which exceeds €9bn.

24. The *Cour des comptes* notes in addition the inadequate recognition of the assets and liabilities representative of the rights and obligations contracted by the Central Government for the public service concession and *Consortium Grand Stade* for the financing, design, building, maintenance and operation of *Stade de France*.

25. It duly notes the commitment of the Administration to carry out, during fiscal year 2010, an analysis enabling it to characterise the control of the Central Government for those various works.

B - Removal of some of the qualifications expressed regarding the 2008 financial statements

26. As of December 31, 2009, the *Cour des comptes* notes the difficulties that represented elements of certain qualifications expressed concerning the 2008 Central Government financial statements.

Time periods needed for the release of the financial statements of the implementing partners (qualification No. 3 regarding the 2008 financial statements)

27. Under its Qualification No. 3 regarding the 2008 financial statements, the *Cour des comptes* had noted that the portion of implementing partners valued in the financial statements of the Central Government for the fiscal year ended on the basis of the financial statements pertaining to a previous fiscal year was always excessive. For fiscal year 2009, 75% of the implementing partners, representing 93% of their equivalent value on the balance sheet, were valued on the basis of their financial statements as at 31 December 2009.

28. Considering the amounts concerned, which result among other things from the reporting of the interim financial statements for 2009 of the French Atomic Energy Commission (representing by itself 18.7% of the total equivalent value), the uncertainty noted for the previous fiscal year was decreased to an acceptable level.

Unallocated fixed assets (qualification No. 8 regarding the 2008 financial statements)

29. The “unallocated” fixed assets accounts, combining low-value unit assets, were posted under assets of the Central Government’s balance sheet for 2008 for a gross amount of €10.6bn. The *Cour des comptes* had noted, under qualification No. 8 regarding the Central Government’s 2008 financial statements, that there was no physical inventory supporting their recognition and that, in addition, such recognition was not in compliance with the standards applicable to the Central Government.

30. In accordance with its commitments, the Administration set off at December 31, 2009, the “unallocated” fixed assets accounts through a counter-entry in the net position of the Central Government. Only assets with per-unit value exceeding €10,000 were kept under assets and included in a book inventory.

31. The uncertainty finding noted for the previous fiscal year no longer exists.

**Joint financing of fixed assets
(qualification No. 8 regarding the 2008
financial statements)**

32. The *Cour des comptes* had noted in qualification No. 8 regarding the 2008 financial statements, an uncertainty related to the recognition of the co-financing of fixed assets (primarily of facilities granted to the Central Government for the construction, equipment and operation of the national road system), which was not in compliance with the provisions of Accounting Standard 6. The latter stipulates that those should be recognised as unearned income. Their amount must be included in the income statement at the same rate and duration as for the depreciation of the fixed assets to which they pertain, if applicable, or otherwise over a ten-year period.

33. The treatment requested by the *Cour des comptes* – consisting of applying those provisions to the investment operations placed in service on or after 1 January 2006 and to preserve, for the older transactions, the fixed-amount method currently applied – was applied for the financial statements as at 31 December 2009.

34. The uncertainty noted for the previous fiscal year has therefore been reduced to an acceptable level.

C - Substantial qualifications relative to the Central Government's 2009 financial statements

1 - Financial and accounting reporting systems of the Central Government

35. The *Cour des comptes* renews a substantial qualification relative to the financial and accounting reporting systems of the Central Government

36. Their features still impose a general limitation on the scope of the controls by the *Cour des comptes* and entail various uncertainties with respect to the quality of accounting entries processed through them.

37. The delay in the design of new systems, including first and foremost *Chorus*, will prevent the Central Government accounting to reach a substantial and necessary step in 2011. Many uncertainties remain with respect to the capacity of those tools to take into account all the concerns expressed by the *Cour des comptes* since 2006 in the audit opinions about the central government's financial statements.

Insufficient integration of the IT systems

38. The insufficient integration of the applications limits the ability of the *Cour des comptes* to obtain assurance as to the compliance of the recognised accounting entries with the transactions in which they originate.

39. The work undertaken by the Administration to improve the audit trail between *CGL*, the central accounting application, and the applications served by it has not been completed.

40. Despite the progress made since 2006, this work remains, for a great many number of cases, insufficient.

41. The inability to feed automatically, from the accrual accounting entries into the management event in the *CEP* application, which is dedicated to the keeping of deposit accounts for the Treasury correspondents, exemplifies this

situation. The improvement of the audit trail expected in 2010 will probably be only temporary considering the difficulty to interface a very old application with *Chorus*.

42. The weak links between applications limits the possibility to corroborate accounting entries.

43. The application *ERICA* enables the follow up and calculation of provisions for legal disputes related to tax matters. However, it is not possible to reconcile the data relative to the outcome of legal disputes which are managed in this application and the amounts recognized in *CGL*. The ability of the *Cour des comptes* to audit these amounts is therefore limited thereby.

44. Even though they contain shared data, the databases referencing the taxpayers are not shared among the IT systems of the networks of the Public Finance Department and of the General Directorate for Customs and Excise Duties. Thus, the valuation of the provisions for impairment of claims does not mutualise the knowledge of the non-recovery risks identified in those two networks.

45. The irregularities, found during the migration of the ministries of national education, training and research into *Chorus*, materialise the extent of operational risks related to the insufficient integration of the systems.

46. The applications relative to annuities and travel expenses were plugged into *Chorus* four months later than planned. This situation resulted in blocked payment files which required the manual re-input into the accrual accounting application of all the files recorded in the feeder applications and the creation of corresponding third-party accounts in *Chorus*. The risks weighing on the securitisation of the ministerial interfaces have, in addition, led to a postponement of the transition of the “student life” programme.

**The inadequacy of applications for
the purposes of accrual accounting**

47. The often outdated and unsuitable design of the applications limits the ability of the *Cour des comptes* to obtain assurance that the risk of error they carry has been lowered to an acceptable level.

48. The features of the applications, leading to recording a high number of accounting entries of varied nature, limit the possibility of the *Cour des comptes* to audit the file from which the general account of the Central Government is extracted.

49. As at 31 December 2009, this file contained more than 35 million accounting entries, i.e., ten times more than a business with a comparable balance sheet. This volume results from the sizeable number of entries transiting between the accountants of the Treasury through reciprocal accounts. These entries, which represent 70% of the flows recorded, have no impact on the accounting balances and cannot be properly distinguished from those that are the only ones that should be audited by the *Cour des comptes*. They may however as a consequence, similarly to the entries in account 442.4 “Local authorities and public institutions - metropolitan France and Overseas Department – Financial sector”, artificially inflate the balance sheet and require substantial revision work.

50. In addition to the fact that there are 2.5 million manual entries made in the accrual accounting application, *CGL*, during fiscal year 2009 alone, it is also impossible to link the negative entries to those cancelled by them. This situation leads the auditor to carry out an audit which is incompatible with the time frame afforded thereto for the audit.

51. The functional limitations of the main feeder applications increase the scope of this limitation.

52. Neither the information systems of the Ministry of Defence nor MEDOC, the application for the management of sovereign revenues from taxes, were designed to meet the requirements accrual-basis accounting as set forth in Article 30 of the LOLF. Their functional limitations require many manual and automated adjustments, which are a source of errors; the *Cour des comptes* is unable to determine whether all of them have been addressed, considering the low level or lack of traceability of the controls applied to them.

53. Because of the lack of usable auxiliary accounting, the *Cour des comptes* can neither corroborate the amounts recorded in the accounts nor express an opinion on the completeness of the charges payable and other non-financial debts of the Central Government, which at 31 December 2009 totalled €14bn.

54. The “circularisation” of debtors, which is generally considered to be the most probative auditing technique, cannot be used by the *Cour des comptes*. In fact, the absence of a single third-party basis and the persistence of old practices in which a commitment to a third party is recognised at the time of payment, while the LOLF requires to expense the commitment authorisations upon the creation of a legal obligation, make necessary a manual matching of the income and expenses to the fiscal year at the year-end, which does not allow for a reliable identification of the debtors and creditors concerned.

55. The accounting data disclosed to the *Cour des comptes* by thirteen fixed assets suppliers to the Ministry of Defence were reconciled against the charges payable in the dedicated tool *Orchidée* and down payments and advances inventoried in accrual accounting. The reconciliation turned out to be impossible, leaving unexplained differences of €0.6bn and €4.8bn, respectively.

56. The audits conducted by the *Cour des comptes* based on third party suppliers of the software package, *Chorus*, also led it to find it insufficiently reliable. Indeed, there are redundant records concerning several suppliers in that database.

57. The process of preparing the financial information appended hereto is not sufficiently secure and auditable, notably due to the fact that it is not based on suitable information systems.

58. The *Cour des comptes* had three business days in which to conduct its audit on this important component of the financial statements. The work conducted in relation to this led it to find a great number of errors affecting the entire document, which were corrected by the preparer of the financial statements.

59. Moreover, a certain number of data were not properly audited by the *Cour des comptes* because of their insufficient documentation or because of the significant portion of extra-bookkeeping adjustments that are required by the current information systems.

60. The result from that is scope limitation and uncertainty as to the reliability of the process of preparation of the financial information appended hereto.

61. Likewise, the current information systems are ill-suited for the adjustment of prior accounting information and only allow for an imperfect comparison of the financial statements of the Central Government year-on-year.

62. For the first time since LOLF has entered into effect, the financial statements of the Central Government for 2009 present accounting data for fiscal year 2008 adjusted for the changes in accounting methods and correction of errors that had occurred in 2009, in order to ensure the comparability of the financial information year-on-year. The work of the preparer of the financial statements has been made difficult by the limitations of the information system to be able to identify in an exhaustive manner the entries that need adjustment.

63. The audits of the *Cour des comptes* have shown the incomplete nature of the adjustments of financial information made for the 2008 financial statements and the impossibility in which it finds itself to express an opinion on the well-founded nature of some of them. These difficulties affect both the quality of the adjustments of the balance sheet and the completeness of the adjustments in the income statement.

64. They concern notably the numerous error corrections realised in 2009 on the assets of the Ministry of Defence and the unallocated fixed assets of the various ministries, which have resulted in a partial adjustment and difficult to audit financial information for the 2008 financial statements, for want of a suitable follow-up. Similar difficulties have affected the quality of the adjustments in terms of liabilities related to Programme expenditure.

Inadequacy of the auditing tools available to the auditor

65. The *Cour des comptes* is unable to obtain assurance as to the respect of the audit assertions applicable to the accounting records and balances.

66. It is unable to obtain assurance, within a reasonable timeframe, as to the effectiveness of the multiple manual controls put in place by the Administration to remedy the inability of a number of existing tools to guarantee the integrity of data handled.

67. The number of accounting schemes used in 2009 exceeds 10,000. Their instability from one fiscal year to the next, their insufficient documentation and the lack of certain auditing tools mean the *Cour des comptes* is unable to obtain assurance about their consistency or about the exact correspondence between accounts and the sum of the records that are supposed to be used to populate them.

68. Despite the improvements enjoyed by the *India LOLF* data warehouse, its insufficiently broad scope and the unavailability of certain requests at the national level lead to the finding that it does not fulfil the needs of the *Cour des comptes*. The *Chorus* accounting data warehouse is, in turn, still undergoing modelling.

69. The accounting treatments related to certain sovereign revenues (non-cash charges, on the one hand, calculation and allocation of taxes, on the other) are very complex by nature and are part of the production of accounting information without the user having available an interim financial statement that could be used to check the results of such treatments.

Delays and uncertainties related to the design of the new systems

70. The *Cour des comptes* was unable to obtain assurance that the roll out of the new information systems will result in real progress in accrual accounting and in the implementation of audit techniques.

71. The *Chorus* parameters and the insufficient advancement of the design of its accounting core are creating a major risk for its ability to keep an accrual-basis accounting for the Central Government with a definable horizon.

72. In too many cases, the record of a legal commitment by the managers upon its origination is not guaranteed in *Chorus*. This deficiency in the record-keeping of the commitments of the Central Government vis-à-vis third parties does not enable it to build the reliability or to automate the process by which the accounts payable and receivable are unloaded into the accrual-basis accounting.

73. The need -- recognised by the Administration -- to carry out additional work on the record-keeping of the accrual-basis accounting in *Chorus* has led it to postpone the transition to 1 January 2012.

74. The Central Government's chart of accounts based on which the financial statements will be produced in *Chorus* has not been established. The current design work provides for a number of reciprocal accounts for which the traceability of accounting entries is not guaranteed to be preserved.

75. The *Cour des comptes* does not always have tangible information to express an opinion on the development that would result from the implementation of the *Payment System Overhaul (RSP)* unit of the *Copernic* programme, which will ensure the management of the collection of taxes.

76. The *RSP* unit will not be deployed before 2012 and the state of its current development does not seem to respond to the observations made by the *Cour des comptes* relative to the need for greater traceability and for a system that is truly adapted to accrual-basis accounting.

2 - Ministerial systems for internal control and internal audit

77. The *Cour des comptes* renewed as at 31 December 2009 a substantial qualification relative to the weaknesses of the ministerial systems for internal controlling and internal audit.

78. Despite the significant progress achieved in the past three years, the persons in charge at the ministries are still unable to substantiate their assessment of the degree of control of the accounting and financial risks that are created by the systems still under deployment, whose audits by the *Cour des comptes* in addition show persistent deficiencies.

79. Internal accounting controlling refers to the set of mechanisms or processes which are organised, structured and permanent, selected by the management and implemented by the Administration at every level to control the functioning of their activities so as to give reasonable assurance as to their lawfulness, truthfulness and correspondence of entries to the facts they describe (“true and fair view”). The assessment of risks must be the basis for the implementation of actions aimed to control them.

80. The persons in charge at the ministries must be able to commit about the efficacy and effectiveness of the mechanisms in place through certification letters signed by Secretary Generals and addressed to the *Cour des Comptes*. The regular evaluation of those systems by the internal audit must contribute to providing them with assurance. These conditions were still unmet as at 31 December 2009.

Internal ministerial controlling

81. There has been significant progress in the ministerial approach for the identification and control of risks in 2009.

82. Risk mapping enjoyed stronger management. Its perimeter and scope broadened. The methods and the calendar for the fiscal year have been mastered by all the ministries. The sources of analysis have been diversified and have made it possible to provide a truer and fairer view of the risks in a number of cases.

83. In most ministries, the proper sequence of the identification of the risks and action plans aiming at mastering them is a given fact. The *Cour des comptes* notes the rising quality of the supports used in structuring the approach representing the action plans.

84. The first step in that approach in documentary and organizational terms has not however been completed by the entire managing department.

85. The deployment of internal control is based, in a growing number of central administrations, on a stabilised organisation and documentation of the principal processes at stake. Conversely, the percentage of completion of the approach is significantly lower at a local scale, despite the progress accomplished in 2009, while it concentrates an essential portion of the financial stakes of the Central Government.

86. The organisational and documentary phases of that deployment thus have not been completed in the local offices of the Ministry of the Ecology, Energy, Sustainable Development and the Sea (MEEDDM). In that Ministry as in that of Food, Agriculture and Fishing, there is a gap between the departmental level and the dynamic of the deployment of systems for the control of accounting risks.

87. In the Ministry of Culture and Communications, the effective implementation of tools for structuring the internal control only concerns a limited number of regional departments and is translated within each department by a very uneven degree of familiarisation.

88. The reorganisation of the services related to the State reform and the rollout of *Chorus* generates new risks that cannot yet be controlled by the existing internal control systems.

89. The territorial reorganisation of the State has led to the creation of new structures and a new distribution of managerial responsibilities. This major development did not translate into a simultaneous redefinition of the internal control management structure and of the actors in charge of its leadership.

90. The *Chorus* system implies an in-depth restructuring of procedures, the adaptation of the respective roles of the authorising officers and accountants and the sharing of financial departments. The deployment of the tool at the local level is done as part of organisation and management circuits that are poorly stabilised and lack a set of control procedures that are tested beforehand and kept up to date.

91. Achieving a new stage of maturity in the organisation of internal control does not yet translate, in a sufficient number of ministries, into the implementation of tools enabling the appreciation of the efficacy of existing systems.

92. The approaches initiated in that sense by several ministries still only cover a limited scope and often remain of an experimental nature.

93. For lack of suitable indicators, the Secretary Generals of the ministries are not able to substantiate their assessment of the effectiveness and efficacy of the systems within their scope of responsibility.

94. The controls carried out by the *Cour des comptes* on the Central Government's financial statements in fact show their persistent deficiencies and illustrate the impossibility of expecting an effective control of the risks from the documentation of the procedures alone. This is shown by the numerous irregularities concerning the recording of commitments made by the Central Government in relation to programme expenditure managed by the Ministries of Economy, Labour, the Interior, Agriculture, Equipment, Housing and Culture.

95. The presentation, as an appendix to the financial statements, of a "schedule of budgetary commitments relative to the transactions for which the service rendered has not occurred" does not enable, as applicable, to assess the insufficient nature of the commitment authorisation grants for a number of budgetary programmes, which reflects a deficiency in the internal control of the accrual accounting recordkeeping provided for in Article 8 of the LOLF.

96. The schedule only retraces by title and by budgetary purpose and not by programme the amounts "remaining due" (commitment authorisation not generating the consumption of the corresponding payment credits). It does not provide a breakdown by purpose and programme either of payments due or prepaid expenses.

97. This presentation does not allow the reader of the financial statements to identify the transactions for which accrual accounting shows that the service was rendered and that did not generate beforehand a consumption of commitment authorisations.

98. Based on the audits carried out, the *Cour des comptes* has identified 20 programmes for which the 2009 commitment authorisation deficiencies totalled €3.3bn, a situation which is nevertheless disallowed by Article 8 of the LOLF.

99. Most of them concern the programmes for Housing Assistance (€833m), Veteran Memory, Recognition and Distribution (€481m), Space Research (€326m), Economic Changes and Job Development Support (€557m), Disabilities and Dependency (€820m), Overseas Employment (€221m) and Private Primary and Secondary Education (€204m).

100. Finding these discrepancies without the Administration being able to explain them shows an internal control deficiency in the accrual-basis accounting recordkeeping, which nevertheless constitutes a fundamental responsibility of the authorising departments.

Internal Ministerial Audit

101. The number of internal audit departments whose work may be used by the *Cour des comptes*, in accordance with the provisions of ISA 610, remains limited.

102. Letter exchanges have been defining since 2008 the methods for the coordination with the internal audit of the DGFIP and the General Economic and Financial Control department (CGEFi). The framework of the relations between the *Cour des comptes* and the Ministerial Audit Committee, shared by the two Financial Ministries, was finalised in January 2010 and should result in a better synergy between the internal audits and the audits carried out by the *Cour des comptes* within those Ministries.

103. The relationship between the *Cour des comptes* and the Ministerial accounting and financial audit committee of the Ministry of Defence are governed by an exchange of letters signed on 20 May 2009 which has made it possible to use a very specific set of reports that most of the time have confirmed the findings of the *Cour des comptes*.

104. The structuring of the relationship between the *Cour des comptes* and the internal audit of the two new ministries will be examined in 2010.

105. The Ministry of Agriculture has an operational accounting internal audit department, structured around the General Council of agriculture, food and rural areas.

106. MEEDDM in turn has pursued the development of its accounting and financial audit ability, around the General Council for the environment and sustainable development.

107. In a small number of cases, the internal audit function has been identified and addressed in a development strategy but has not yet reached a sufficient maturity level.

108. The creation of an internal audit unit within the General Secretariat of the Social Ministries, covering the work, health, youth and sports segments could not be completed in 2009.

109. The internal audit at the Ministry of Justice around the General Inspection of the legal departments is still in the process of structuring.

110. As at 31 December 2009, a majority of ministries had not approved an operational development strategy in the internal audit function.

111. The situation has changed very little in 2009 within the Ministries of the Interior, National Education, Higher Education and Research, Culture and Communication and Foreign and European affairs.

112. The implementation of audits conducted in partnership with the national audit taskforce of the DGFIP constitutes an important contribution, but it is not to remedy, by itself, the function's structuring deficiency within each of those Ministries.

113. The findings from the previous year continue therefore to be pertinent, despite the commitments made by some of the Secretaries General and the recommendations reiterated by the *Cour des comptes*.

3 - Identification and valuation of the implementing partners

114. All the discrepancies and uncertainties affecting the identification of the implementing partners and the quality of their financial statements leads the *Cour des comptes* to express for a fourth consecutive year a substantial qualification on their capitalised value in the Central Government's financial statements as at 31 December 2009.

115. Accounting Standard 7 defines implementing partners as entities with legal personality exercising a public service mission under the strict control of the Central Government, which contributes a major portion of their financing. They represent participations of the Central Government and are listed as such on the assets side of its balance sheet. As at 31 December 2009, 635 implementing partners were listed for an amount of €56.4bn or close to 8% of its balance sheet total.

Identification of the implementing partners

116. The methods used to establish the list of the implementing partners does not make it possible to guarantee the compliance of their identification with the provisions of Accounting Standard 7.

117. The process of their identification continues to be the source of risks and errors.

118. The following are in addition to the difficult collection of pertinent information from the oversight ministries:

- No clarification of the criteria of Accounting Standard 7 relative to the classification of the entities controlled as implementing partners;
- Insufficient control exercised by the preparer of the financial statements over the list prepared by the budget department

119. Even though bringing the Central Government's general account in compliance with the list of implementing partners registered in the budget bill for the coming year constitutes progress, the *Cour des comptes* notes the continued material uncertainties and irregularities in terms of their identification.

120. The reliability of the “inventory” of implementing partners that is capitalised in the financial statements of the Central Government has yet to be achieved.

121. The list of the implementing partners, initially prepared as at 1 January 2006 has not been revisited since in a rigorous manner with respect to regulatory criteria. Among the 380 entities flagged by the *Cour des comptes* in 2007, only 55 have since undergone an analysis by the preparer of the financial statements.

122. The audits conducted in 2009 by the *Cour des comptes* and the national audit taskforce of the DGFIP have further made it possible to identify irregularities that translate into the inclusion in the list of the implementing partners of at least eight entities that do not meet the criteria posed by Standard 7 and represent an equivalent value of €1.5bn.

Valuation of the implementing partners

123. Despite the reliability-building projects conducted over the past four years, the financial statements of a great number of implementing partners currently present serious deficiencies that create a material uncertainty weighing on their valuation in the financial statements of the Central Government as at 31 December 2009.

124. The real-estate holdings of the implementing partners are still incorrectly recorded under assets in their balance sheets.

125. The Administration considers that identification phase of the real-estate holdings of the implementing partners completed. France Domaine has thus been able to proceed with the valuation of a portion of its property (up to €32.4bn concerning close to 400 entities).

126. The *Cour des comptes* notes however:

- That an uncertainty weighs on the completeness and occurrence of the identification carried out ;
- That the inventory data transmitted by the implementing partners have not been made reliable, prior to the valuation of fixed assets;
- That the adjusting entries could not be recorded in the financial statements of the implementing partners as at 31 December 2009, because the latter did not have the necessary information in due course.

127. A related project regarding the accounting for works of art and cultural assets has advanced, but is yet to be completed, notably by clarifying the rules applicable to the recognition of historical monuments by the public institutions. Even though the rules were clarified with respect to museums, they are still incorrectly applied, as shows the situation of the Louvre museum which has not capitalized any work acquired between 2006 and 2009.

128. A majority of the implementing partners continue to not follow the accounting guidelines applicable to assets.

129. The vast majority of implementing partners included in the sample tested by the *Cour des comptes* in 2009 acknowledges not applying (50%) or applying only partially (25%) the guidelines of 23 January 2006 regarding assets. These findings are corroborated by the results of the internal audits carried out as part of the national audit mission of the General Directorate for Public Finances in 2009.

130. By way of illustration, the *Établissement de préparation ET de réponse aux urgences sanitaires* (EPRUS), which manages the inventories of healthcare products needed in the fight against serious health threats, did not record any impairment for the healthcare products that had reached an expiry date at fiscal 2009 year-end.

131. The incorrect recognition by the implementing partners of the equity contributions received from the Central Government entails an uncertainty.

132. The investments made by the implementing partners are most often financed through equity allowances from the Central Government. They must be recorded on the asset side of the balance sheet of the Central Government and on the liabilities side of the balance sheet of the implementing partners, under equity.

133. Neither the internal audits conducted by the financial ministries, nor the due diligence carried out by the *Cour des comptes* make it possible to obtain reasonable assurance on the recognition of those allowances (€438m in 2009):

–The lack of an internal control system cannot justify the transactions recorded as allowances in the financial statements of the Central Government;

–An erroneous record of the allowances received by a majority of the implementing partners and frequent fiscal year matching errors were found.

134. The correct recording of the respective commitments made by the Central Government and the implementing partners as part of so-called “non-transparent” programme expenditure has not been assured.

135. A programme expenditure is qualified as transparent if the procedure involves the Central Government, the implementing partner and the final beneficiary; if the implementing partner has a limited margin of autonomy in taking the decisions; if the financing of the programme is provided in whole or in part by transfers from the Central Government; if the Central Government is bound by obligations vis-a-vis the final beneficiary. Conversely, the commitments made by the operator must be recorded in its own financial statements, in order to comply with the accounting regulations in force.

136. Just over one fourth of a sample of 25 implementing partners at risk tested by the *Cour des comptes* declares having analysed the systems whose management they ensure with respect to those criteria.

137. The audits conducted by the *Cour des comptes* as interim and final engagements have made it possible to identify material irregularities related to the absence of recording in the financial statements of certain implementing partners of commitments made under the non-transparent systems (National agency of housing, National agency for urban renewal, National agency for social cohesion and equal opportunity, National agency for research on AIDS and viral hepatitis) Even though most of them have been corrected at the *Cour des comptes*' request, they illustrate the level of risk that is related to the accounting recording of such systems.

138. More generally, the identification by the implementing partners of their liabilities (contingent liabilities, off-balance sheet commitments) is not exhaustive in their financial statements.

139. Certain implementing partners recognise spontaneously not translating into their financial statements a number of risks identified or engagements made (Bibliothèque nationale de France, Ecole nationale supérieure des arts et techniques du théâtre, Institut national de la santé et de la recherche médicale, etc.)

140. A significant number of establishments, including notably Institut national de la santé et de la recherche Médicale (INSERM), Ecole nationale supérieure des arts et techniques du théâtre (ENSATT), Bibliothèque nationale de France (BNF) and Universities, have not registered any provisions at the 2009 year-end, while incidentally the applicable accounting standards required them to do so regardless of the impact thereof on their income statements.

141. The *Cour des comptes* is unable to express an opinion on the reliability of the process for the “reconciliation” of reciprocal debts and claims between the Central Government and the implementing partners.

142. The gradual reinforcement of this procedure constitutes an important advancement for the improvement of the financial statements of the Central Government and those of the implementing partners involved.

143. The *Cour des comptes* however notes the deficiency in terms of completeness of the summary financial statements produced by a number of entities that had been circularised, documents indispensable for concluding on the probative nature of the reconciliation procedure implemented by the preparer of the financial statements of the Central Government.

144. It notes persistent disparities between that reconciliation and the data entered by the managers in the *Orchidée* application.

145. In 2009, certain implementing partners are valued on the basis of interim financial statements, prepared and submitted at the request of the Administration under conditions that do not allow guaranteeing their quality.

146. By way of illustration, the Employment Agency Pôle Emploi reported an interim balance as at 23 February 2010, while its financial statements are audited from April to May and will not be approved until June by the Board of Directors. The interim financial position provided to the *Cour des comptes* as at 12 April 2010 showed an overvaluation of the implementing partner in the financial statements of the Central Government.

147. The procedure for the certification of the financial statements of the implementing partners is still not sufficiently broad and the low number of implementing partners that have currently received an unqualified opinion cannot be considered a sign of overall

improvement in terms of the quality of the financial statements of the implementing partners as at 31 December 2009.

148. The certification requires that the quality of the IT tools, procedures, standards and schedules be improved. It presumes an appropriation by the authorising officers and more generally by the governing bodies of the issues related to accounting quality.

149. In 2009, 18 universities that had complied with the broader responsibilities and competencies and three public institutions under the Financial Security Act of 1 August 2003 (Météo-France for consolidated financial statements, IFREMER and ANRU) had, for the first time, their financial statements certified by an auditor. As at 31 December 2009, the implementing partners subject to this procedure represented close to 40% of the overall equivalent value.

150. Without underrating the action of the public authorities intended to further broaden this approach, the number remains insufficient by comparison to the 635 implementing partners identified as at that same date, considering the importance of their valuation in the financial statements of the Central Government and the financings they receive to ensure their missions.

4 - Charges and liabilities related to Programme expenditure

151. The portion of discrepancies and uncertainties penalising, for the fourth consecutive year, the completeness of the charges and liabilities identified by the Central Government in relation to its mission of economic and social regulator, justifies the *Cour des comptes*' continued substantial qualification.

152. The total of charges related to programme expenditure for 2009 stood at €171bn and the total of liabilities related to programme expenditure as at 31 December 2009 was €66bn. The scope of liabilities recognised has increased significantly between 2008 and 2009, reflecting the efforts made by the Administration to build the reliability of their recording.

Uncertainties on the unaudited programme expenditure

153. A significant uncertainty weighs on the completeness in the financial statements of the Central Government in terms of its commitments generated in relation to the programme expenditure that the *Cour des comptes* has not yet been able to audit.

154. The *Cour des comptes* estimates that only 201 programme expenditure systems out of a total of 1,355 (15%) were recorded on identification slips by the Administration with a view to establishing the terms of their recognition. This rate of coverage remains insufficient. Furthermore, the irregularities noted by the *Cour des comptes* show that the existence of an identification slip is not sufficient to curb the risk of having incomplete liabilities related to programme expenditure at the period-end.

155. Out of the 147 programme expenditure audited by the *Cour des comptes* since fiscal year 2006 (corresponding to 74% of programme expenditure for the fiscal year), only 53 had been correctly recorded in the financial statements of the Central Government. As a result, a significant uncertainty weighs on the correct recognition of the commitments contracted under the not yet audited programmes, whose charges totalled €44bn in 2009.

The commitments of the Central Government vis-a-vis Réseau Ferré de France (RFF)

156. The incomplete recording of commitments of the Central Government vis-à-vis the French Railway Network (RFF) constitutes a discrepancy whose incidence was estimated at €4bn at the beginning and at €2bn at the end of the fiscal year.

157. These commitments, for which the *Cour des comptes* has already noted the absence of records in the 2008 financial statements, are only noted through the sole authorisations of commitments recorded in the 2010 Budget Act, i.e., €2.5bn. While recognising that this involves new information in the financial statements, the *Cour des comptes* notes that this allowance remains incomplete.

158. The obligation of the Central Government is spread over a multi-year horizon.

159. The Law of 13 February 1997 concerning the creation of RFF and which ranges from financial facilities from the Central Government among the resources of the establishment was specified by the Decree of 5 May 1997 relative to the royalties for the use of the network. The latter provides that the amount of the access royalty for the use of the infrastructure by regional trains is covered by the Central Government, except for the Ile-de-France region.

160. The performance contract and its financial appendices signed in 2008 between the Central Government and RFF for 2008-2012, constitutes a sufficiently explicit declaration of the Central Government's commitment and of its multi-year scope.

161. As at the period-end, the future outflow of resources for the Central Government is probable and without an expected at least equivalent counterparty.

162. The contract specifies that the Central Government subsidy must offset the shortage in commercial receipts to cover the full cost of the infrastructures. It specifies that the coverage rate will only reach 60% in 2012.

163. Under established laws and based on the projections of the business plan appended to the performance contract, a failure to pay the Central Government's subsidy over the following years would jeopardise the continuity of operations of the RFF. In

addition, no counterparty that is at least equivalent is expected from the indirect beneficiaries of this subsidy which are the operators of the railway network.

164. The amount of this outflow of resources can be estimated in a reliable manner until 2011.

165. The information available makes it possible to estimate the commitment of the Central Government to €6.8bn at the beginning of fiscal year 2009 and at €4.5bn at the year-end. The opening of the competition to the transport of travellers does not make it possible to measure the commitment of the Central Government with sufficient reliability and allow a provision to be established over a longer term. The situation therefore will have to be revisited at the end of fiscal year 2010.

The commitments of the Central Government with respect to the funds for the offset of the VAT (FCTVA)

166. The difference of opinion between the *Cour des comptes* and the Administration regarding the event generating the obligation of the Central Government to local authorities under the FCTVA entails a disagreement regarding the provision recognised as at 31 December 2009, whose effect may be estimated at approximately €7bn at the year end.

167. The VAT offset funds (FCTVA), previously named funds for the equipment of local authorities (FECL), was created by Article 13 of the 1975 Supplementary Budget Act and the provisions governing it listed in the General Code of Local Authorities, under Articles L.1615-1 to L.1615-13 and R.1615-1 to R.1615-6).

168. It leads the Central Government to offset a portion of the VAT charge paid by local authorities, their groupings and the public institutions beneficiaries thereof under the actual investment expenses they grant. The offsetting may be done based on the expenses in the year in progress, the previous year or the year before the last depending on the different categories of beneficiaries.

169. The charges related to the FCTVA stood at €9.9bn in 2009, compared to €5.6bn in 2008. Only a provision corresponding to the payment to be made under reimbursements requests received after the

year-end by the prefectural departments, but not yet processed has been recognised at year-end for an amount of €0.4bn.

170. The obligation of the Central Government is generated upon the performance by the local authorities of the eligible expenses.

171. The FCTVA operates on an “open counter” principle, based on legislative or regulatory texts that specify the conditions of eligibility and the methods of payment of the setoff.

172. If the expenses made by the beneficiaries are eligible, the investigating services of the Central Government that examine the request for reimbursement do not have any leeway to refuse the allocation of compensatory funds, which has been confirmed by the administrative jurisprudence².

173. The event generating the obligation recognised by the Central Government in light of Standard 12 should not be confused with the date when the payment by the Central Government becomes due. The condition of a timeframe of one or two years passing following the performance of an order applicable to local authorities outside of the community of communes and agglomerations results in moving forward the date of recognition of the claim held on the local authority, but not that of the obligation that the Central Government contracts in the sense of the standard.

174. Therefore the preparer of the financial statements is wrong in using as an event generating the obligation of the Central Government the date of filing of the request by the local authority.

175. The choice of this method leads to undervaluing the provision in a significant manner.

176. Furthermore, it is not consistent with the options applied as part of other comparable programmes, such as general outfitting with equipment of the departments or the higher education scholarships for which the provisioning of the commitment of the Central Government is occurring prior to the filing of the request by the beneficiaries.

² Cf. Council of State No. 240922 of 5 April 2004 - Commune de Farebersviller.

177. This at the end represents simply the substantiation of a “service rendered” similarly to invoices presented by project managers in order to obtain payment of building assistance subsidies or general allowances for the equipment of communes, programmes for which a provision is nevertheless well established beforehand in the financial statements of the Central Government.

178. The outflow of resources related to this commitment is probable and without expected equivalent counterparty.

179. Legislation in effect as at the date of the approval of the financial statements attributes a high likelihood to the outflow of resources needed for extinguishing the obligation of the Central Government. Since the programme’s objective is the offset of a portion of the expenses incurred by the local authorities, no counterparty that is at least equivalent to the allocation paid can be expected from them.

180. The future outflow of resources can be valued with sufficient reliability.

181. The sums to be paid out for expenses incurred prior to the year-end are measurable in a static manner based on the data observed in prior years.

182. An estimate of the auditor made it possible to value the commitments of the Central Government to €11bn as at 31 December 2008 and at €6.9bn at 31 December 2009.

183. The incorrect recording of the commitments of the Central Government with respect to the local authorities for the FCTVA affects the matching of the expenses to the fiscal year.

184. The recovery plan introduced in 2009 a legislative change that translated into the early repayment of expenses due under the FCTVA.

185. The expenses incurred in 2008 should have been provisioned as at 31 December 2008. In 2009, the write-back of that provision would have eliminated up to €3.9bn, which would be the effect of the shorter repayment period on the balance of the transactions for the fiscal year.

Commitments of the Central Government for the adults with disabilities allocation (AAH)

186. The absence of provisions in the commitments of the Central Government with respect to the beneficiaries of the AAH for the term flagged constitutes a discrepancy whose effect can be estimated at approximately €12bn at year-end.

187. The allocation to adults with disabilities (AAH) was created by Law 75-534 of 30 June 1975 in order to ensure to its beneficiaries a minimum of resources. It is financed by the Central Government, but paid monthly by the family allocation funds (CAF) or by the social agricultural mutuals (MSA).

188. Its allocation is subject on the one hand to a disability being identified by the Commission of rights and autonomy of persons with disabilities (CDAPH) and, on the other hand, to the verification of administrative conditions by the social security funds. Only the resources condition is revised annually.

189. The charges relative to the AAH and the debts of the Central Government with respect to Social Security for this programme totalled respectively €6.2bn and €1.1bn in 2009. Only a backpay provision was recognised at the 2009 year-end for an amount of €0.3bn. A disclosure regarding the multi-year commitments of the Central Government has been nevertheless provided in the notes to the general account of the Central Government.

190. The Central Government is committed for the duration announced by the CDPAH.

191. The Central Government is legally bound with respect to beneficiaries of the AAH over the duration of the allocation explicitly stated in the Social Security Code and announced by the CDAPH, which may continue for up to five years, or even ten years when the level of disability reaches 80% and not on an annual term limited by the periodic revision of resources.

192. The periodic revision of certain conditions for allocation does not jeopardise the term of this commitment.

193. Such a revision is not specific to social security programmes only. Whether the beneficiaries of the special solidarity allocation or of the retirement equivalent allocation have resumed their activities is audited monthly by the Employment Agency Pôle Emploi. The presence of employees in the company

under assisted contracts is checked quarterly by the services and payment agency.

194. The effect of these revisions in turn translates into a statistic estimate of the “outflow rate” which is included under a line item in the assessment of the corresponding provisions.

195. The outflow of resources related to this commitment is probable and without expected equivalent counterparty.

196. Legislation in effect as at the date of the closing of the financial statements attributes a high likelihood to the outflow of resources needed for extinguishing the obligation of the Central Government. The purpose of the allocation being to guarantee a minimum of resources, the Central Government does not expect to see an at least equivalent counterparty for it.

197. The outflow of resources may be valued with sufficient reliability over the duration of the commitment of the Central Government.

198. AAH is not a very complex programme; it is relatively stable in time with a fairly short time horizon (on average 3.5 years for disabilities of 50% to 80% and 5.4 years for disabilities of over 80% based on the 2006 data).

199. Database entries are made in the applications for the social security funds. The variables representing the possible exits of beneficiaries prior to the end of the allocation term may be estimated in general based on the data of the Research, Assessment and Statistics Agency (DREES) and the National Fund for Family Allowances (CNAF).

Commitments of the Central Government for housing assistance

200. The absence of provisioning of the commitments of the Central Government with respect to housing assistance for the duration during which the conditions are met constitutes a discrepancy with material impact.

201. The social housing allowance (ALS) and the personalised housing assistance allowance (APL) are paid by the social security funds and financed by the national fund for housing assistance (FNAL). The receipts of the FNAL include an equalisation contribution from the

Central Government, a contribution from CNAF, social security contributions of the employers and a portion of the tobacco duties.

202. The allocation of the aids is contingent on meeting income and housing requirements.

203. For the Central Government contribution, the charges relative to Programme expenditure for housing aids and the net debt of the Central Government totalled respectively €5.7bn and €0.5bn in 2009. At year-end, only a provision for the backpay of social security services was recognised for an amount of €0.3bn. A disclosure regarding the multi-year commitments of the Central Government has been nevertheless provided in the notes to the general account of the Central Government.

204. The Central Government has committed with respect to the beneficiaries over the entire period in which the allocation conditions have been met.

205. The legislative and regulatory texts relative to the APL and ALS do not define an allocation period; the beneficiaries are not informed of any duration either. The Construction and Housing Code specifies that the personalised housing allowance is due provided that the eligibility criteria have been met.

206. The annual revision of the conditions of the resources does not constitute the limit of the commitment made by the Central Government. For the reasons noted above, applying this option would in addition lead to an accounting treatment that is not uniform with the majority of transfer /expenditure programmes being already provisioned in the financial statements of the Central Government.

207. The outflow of resources related to this commitment is probable and without expected equivalent counterparty.

208. Legislation in effect as at the date of the closing of the financial statements attributes a high likelihood to the outflow of resources needed for extinguishing the obligation of the Central Government. The purpose of this programme being favouring access to housing for households with modest revenues and their continued occupation of their housing, no at least equivalent counterparty for the assistance provided is expected from them.

209. The future outflow of resources necessary to extinguish the obligations of the Central Government with respect to the first-time

homebuyers and the tenants of the housing who originated the request may be valued with sufficient reliability.

210. The term of the commitment of the Central Government is limited to the term of the loan for first-time home buyers but for tenants it may be extended until the tenants' death. This commitment may however be extinguished before its term in the event of early repayment of the loan, favourable development in the resources of the household or new housing no longer meeting the conditions.

211. While it is not certain that a reliable valuation of the commitment of the Central Government until the death of the beneficiary tenant may be obtained, the estimate of the obligations of the Central Government with respect to the tenants for the occupation of the housing at the source of the application and with respect to the first-time homebuyers remains realisable based on the available information.

212. Even though the time horizon of this commitment is slightly higher than in the case of AAH, the changes in the number of beneficiaries and the average allocation paid are relatively moderate year on year.

213. The accounting standards do not condition the establishment of a provision on an absolutely accurate estimate of the outflow of future resources. The relative degree of uncertainty related to the impact of certain variables such as the development of resources or limits is not such as to jeopardise the sufficient reliability of this development.

214. The recognition of provisions under AAH and housing aids in the financial statements of the Central Government does not create any precedent for the social security benefits.

215. AAH and housing allowances are solidarity services which meet the definition of transparent programmes and for which the Central Government is the only and the main financing party. The social security benefits, regardless of the financing mode, are not in any manner concerned, since their operation by distribution justifies the exclusion from the scope of the provision of the rights of the insureds beyond the fiscal year under consideration.

No integration of FNAL and FNSA in the financial statements of the Central Government

216. Even though they do not have a legal personality separate from that of the Central Government, FNAL and FNSA are excluded from the scope of the financial statements of the Central Government. While the preparer of the financial statements has agreed to include FNSA in the financial statements of the Central Government in 2010, there remains a disagreement about FNAL.

217. The Administration has undertaken to include FNSA in the financial statements of the Central Government in 2010.

218. The Fonds national des solidarités actives (FNSA), which has no legal personality separate from that of the Central Government, centralises the financing of the RSA "activity", a benefit provided to employees based on the difference with the income from their activity. This financing is ensured by a contribution on investment revenues created for that purpose (at the rate of 1.1%) and by an equalization contribution by the Central Government.

219. The objection of the Administration to the inclusion of FNAL in the financial statements of the Central Government constitutes, conversely, a disagreement.

220. The Fonds national d'aide au logement (FNAL) centralises the financing of the housing allowances (APL and ALS), which is ensured primarily by an equalisation contribution by the Central Government, a contribution of CNAF and social security contributions paid by employers covered by the URSSAF.

221. Since it does not have a legal personality separate from that of the Central Government, controlled and administered by the latter, it should be included in the financial statements of the Central Government in application of the provisions of Standard 7 on participations.

222. The argument put forward by the Administration, invoking the plurality of sources of financing of FNAL does not challenge this analysis and the consequences that should be drawn from it at the accounting level. The *Cour des comptes* duly notes the commitment of the administration to review the accounting treatment applicable to FNAL during fiscal year 2010.

Exemption from contribution on overtime

223. The accounting treatment applied to the financial setoff of the exemptions from contributions on overtime, both by the Central Government and by ACOSS, departs from the accrual-basis principle.

224. Article 9 of the 2008 Supplementary Budget Act provides that in the event of insufficient financing of exemptions in the financial statements of the social security agencies, a "receivable (...) on the product of social security contribution on benefits" is recognised for the latter (€293m in 2009). Symmetrically, the Central Government registers in its financial statements, a due and payable charge.

225. The receivable the recognition of which is required by law from the social security agencies and the payable which is the consequence thereof in the financial statements of the Central Government in reality match in the next fiscal year. This accounting treatment departs from the accrual-basis principle of accounting set by the LOLF. Its development is dependent on that of the law.

226. Despite the observations of the *Cour des comptes*, the notes to the general account of the Central Government do not mention this situation.

Debt repayment and development contracts

227. The development and debt repayment contracts are still not recognised in accordance with their nature in the financial statements of the Central Government.

228. The additional programmes by the Central Government designed to lighten the debt of the very indebted poor countries in accordance with a programme for refinancing through donations, managed as part of contracts known as "debt repayment and development contracts" (C2D) Under this program, the beneficiary country continues to honour its debt with respect to the Central Government, but the latter undertakes in exchange to make a donation thereto in an amount equivalent for the financing of programmes fighting against poverty.

229. The treatment applied by the preparer of the financial statements consists of writing down the claim it holds on a third-party country, whose debt it considers cancelled. The correct division of the transactions should on the contrary, in application of the principle according to which assets and liabilities as well as items of revenue and expenses should not be offset, enable to distinguish the discharge of the debt from the grant of a new facility intended for the financing of investments projects.

230. The impairment recognised by the preparer of the financial statements is therefore not well-founded since a repayment is indeed taking place systematically. The payment to the beneficiary country of an investment subsidy should have for its part generated the recognition of a charge related to programme expenditure and its provisioning for up to €392m as at 31 December 2009.

Financial disclosure in the notes to financial statements

231. The disclosure relative to the provisions for programme expenditure presented in the notes to the general account of the Central Government does not follow the accounting standards applicable thereto.

232. The accounting standards stipulate that the methods for the calculation, distribution by category and the calendar for material provisions are provided in the notes.

233. However, only the assumptions made in assessing the outflow of future resources for the provisions relative to the PEL/CEL and to the increase in annuities have been specified.

234. The other provisions of the standards were not applied, even though they do represent fundamental information considering the significant heterogeneity over time of the legal obligations and of those recognised by the Central Government.

5 - Ministry of Defence assets

235. The path taken by the Ministry of Defence for building the reliability of the accounting records of its assets has made it possible to significantly improve that. However, as at 31 December 2009, uncertainties which continue to weigh on the completeness and the valuation of those assets, the limitations to which the *Cour des comptes* continues to be faced with as well as a disagreement on the threshold of fixed assets applied, lead it to maintain a substantial qualification.

236. Real-estate holdings excluded, the assets of the Ministry of Defence totalled €176bn gross (€110bn net) in the balance sheet of the Central Government as at 31 December 2009. Those assets are characterised by an extreme diversity, very variable age and the limitations of the information systems through which their inventory and measurement may be done.

237. The Ministry of Defence had undertaken, in early 2007, a three-year path of building the reliability which it has since completed. In addition to the structuring at the scale of the Ministry of internal accounting and financial audit, the main accomplishments of this approach concern:

- The structuring of the accounting procedures adapted to the specificities of the ministry;
- The implementation of a reliable method for the valuation of the fixed assets in progress;
- The production of permanent auditability files by the main persons in charge of identification;
- The extension of the scope of counting of the tangible assets and inventories.

238. As at 31 December 2009, numerous difficulties still remained.

An accounting environment still difficult to audit

239. Numerous insufficiency continue to affect the quality of the data of the inventory files which are used as a basis for the amounts recognised under the assets of the balance sheet of the Central Government.

240. The irregularities uncovered by the *Cour des comptes*, regardless of whether their individual impact is material or not, illustrate the weakness and structural inadaptability of inventory tools still being designed based on a simple spreadsheet. These irregularities concern in particular:

- The difficulties to reconcile information contained in inventory files as at 1 January 2009 to those that were there as at 31 December 2008;
- Disparities, with respect to impaired assets between the accumulated amortisation and depreciation such as listed in the files as at 31 December 2008 and as written-back as at 1 January 2009;
- The use of questionable accounting schemes for the registration of certain impaired assets;
- One-off deviations between the value of the end-of period files and those contained in the logistic information systems which are supposed to corroborate them, notably SIMAT for the Army and SIGLE for the Navy;
- Insufficient justifications of a major number of correcting entries that have modified in a significant manner the gross value of the fixed assets and inventories (€1.8bn in absolute value and €600m in net value), impairments (€1.6bn in absolute value and €0.3bn in net value) and fixed assets impairment (€1bn in absolute value and €70m in net value) between 31 December 2008 and 1 January 2009;
- The incomplete nature of the reconciliation of budgetary investment flows for the year and the inflows of fixed assets in the inventory files, deviations without explanations in the amount of €0.8bn in absolute value that were noted by the *Cour des comptes* for its samples.

241. Certain fixed assets in service are listed in the accounts for unjustified very large amounts.

242. The values considered “unauditable” as at 31 December 2008 by the departments of the Ministry of Defence and still present on the financial statements at the 2009 year-end may be estimated at approximately €60bn gross (close to €25bn net). For the most part, but not for all, these are assets acquired prior to 2006.

243. In this deteriorated environment, the *Cour de comptes* is unable to carry out a portion of the necessary audits.

244. Even though the analysis method used by the markets for the valuation of fixed assets in production under project management of the General Directorate for Armament does not call for criticism by the *Cour des comptes*, the latter is not able to express an opinion on the balances as at 31 December 2009, because it could not audit within a time period compatible with the performance of its engagement a sufficiently representative portion of the necessary substantiating elements. The amounts concerned represent €26.9bn in gross value under the balance sheet of the Central Government as at 31 December 2009.

245. Several consistency and valuation controls could only be carried out partially on the inventory files of the Navy Commissariat (DCCM), the Central Administration of the Equipment of the Army (DCMAT), the General Staff of the Armies (EMA), the Integrated Structure for the Maintenance in Operating Condition of the Aeronautical Defence Equipment (SIMMAD) and the General Directorate for Armament (DGA).

**Insufficiently exhaustive
identification scope**

246. Setting a capitalisation threshold at €10,000 results in recording under expenses assets with a lower per unit value which do nevertheless have all the features of an asset and that were financed through investment credits.

247. The departures that still existed within the Ministry with respect to the capitalisation threshold set at €10,000 applicable to the assets of the civil Ministries (except for transport equipment) were discontinued in 2009 against the advice of the *Cour des comptes*.

248. The effect of that decision was a reduction in fixed assets of the Ministry of Defence by €2.7bn gross (€2.2bn net), reclassified under expenses, to which is added an undetermined part of fixed assets reclassified under inventories.

249. The *Cour des comptes* therefore notes a discrepancy with respect to the threshold based on which the fixed assets should be reported in the financial statements. It notes however that, according to the preparer of the financial statements, this threshold might be lowered, once Chorus' deployment has been completed.

250. The failure to recognise a number of assets and liabilities generates an uncertainty.

251. Provisions for dismantling expenses were not identified in an exhaustive manner by certain services managing fixed assets (DCMAT, DGA, DCSSF).

252. The dismantling assets – to be recorded as an offsetting entry to provisions for dismantling expenses at the time of the inflow of the assets concerned in the holdings of the Central Government – are not identified in the financial statements. Their reporting, without an overall impact on the value of the assets, represents a global amount of €0.5bn for the assets inventoried by the DGA.

253. The “general maintenance” and “major inspections” components recognised by the Ministry represent the obligation of the Central Government to make subsequent indispensable expenses for the proper operation of certain equipment of the Navy and the Air Forces. They are not however identified in an exhaustive manner, which affects the net value of the assets concerned. Thus, only 13 modernised Super Etendards out of a fleet of 46 aircraft, 9 Atlantique II out of a fleet of 28 aircraft and 2 nuclear strike submarines out of a total of 6 present a “general maintenance” or “major inspection” component.

254. The scope of identification of the assets made available to industrials by the Ministry of Defence continues to be incomplete, despite major work carried out in 2009, which made it possible to increase their gross amount by €0.8bn.

255. Unrecognised assets provided to industrials as part of armament operations under project management by the General Directorate for Armament, can be valued at €1bn gross. Their net value is probably much lower.

Valuation of the assets affected by numerous irregularities.

256. A portion of the fixed assets in service, considered as auditable by the Administration is valued by the DGA under a method that overrides/deviates from the applicable standards.

257. Contrary to the fixed assets in progress, assets in service remain, for a significant portion, valued based on a method known as “detailed flat-rate method”. The latter is not in compliance with Accounting Standard 6 and cannot be approved by the Cour des comptes. The fixed assets concerned represent at least €8.2bn gross (€5.8bn net) for the major buildings of the Navy (Le Vigilant, Le Téméraire, le Charles de Gaulle, Le Triomphant, etc.) recorded in the balance sheet of the Central Government as at 31 December 2009.

258. A residual portion of the fixed assets in progress and military development qualified as under the DGA management agency remained valued based on a method that is likewise incompatible with the accounting standards.

259. Certain qualified military developments, totalling €2.7bn gross (€1.1bn net), are also valued by the cumulative budgetary expenses.

260. Several fixed assets in progress, corresponding to so-called “other” investment budget transactions are in turn valued for an amount of €2.8bn by a global coefficient applied to the cumulative budgetary expenses. These procedures are not in compliance with the Central Government’s Accounting Standards 5 and 6 applicable to property, plant and equipment and intangible fixed assets.

261. Certain inventories are recognised at values established according to methods that are not in compliance with Accounting Standard 8.

262. The logistics information systems used by the principal departments managing inventories (SIMMAD, DCMAT and DCSSF) do not allow for the calculation of a weighted average per-unit cost per inventoried item.

263. The fixed assets and inventories impairment policy is applied in an incomplete and heterogeneous manner.

264. Despite the inclusion of two specific procedures in the guide of accounting procedures which was distributed by the Ministry in the fall of 2009, the policies followed by the major departments managing fixed assets and inventories are still not very harmonised. The stakes are particularly significant with respect to inventories, for which the impairment recognised at the 2009 year-end represents €4.6bn, i.e., 13.6% of the gross value of the inventories of the Ministry.

6 - Sovereign revenues

265. The portion of uncertainties and limitations that continue to weigh on the recognition of sovereign revenues has led the *Cour des comptes* to maintain the substantial qualification expressed for the previous years.

266. As at 31 December 2009, the net sovereign revenues thus recognised amounted to €241bn. The net amount of taxpayers' liabilities is valued under assets on the balance sheet at €44bn and the tax obligations represent €17bn under liabilities.

High inherent risk

267. A set of factors contribute to the heightened risk level which weighs on the recognition of sovereign revenues.

268. The management and control of sovereign revenues environment is based on an information system that manages in an automated manner very high volumes, but leaves a major portion to still be processed manually. The latter generate 1% of accounting entries and 27% of the amount of flows that feed the statement of sovereign revenues.

269. The functional limits of the information systems require the implementation of major non automated valuation work in a risky context, considering the time required for the closing and period-end transaction and the magnitude of manual processing.

270. At the 2009 year-end, the period-end transactions totalled €141.4bn on the income statement and €6.5bn on the balance sheet. Their size, which is a source of risks pertaining to the completeness, exact valuation and proper fiscal-year matching, can be explained by the constraints of the business line applications intended for the departments managing taxes and the collection applications designed to record income when received and not when the claim or obligation is generated.

271. The extreme complexity of the tax legislation and its very progressive nature in step with the Finance Acts and the Social Security Financing Acts represent aggravating risk factors. In addition, and from an operational point of view, when the collection of receipts was rationalised due to the development of remote procedures and the industrialisation of collection, the tax management, conversely became heavier under the effect of the development of the tax reimbursement or refund programmes.

Insufficient controls

272. The controls carried out on key processes remain insufficient to be able to guarantee the occurrence of the recognised flows.

273. The valuation of receivables for deferred and fractionary payments remains uncertain despite certain improvements made by the administration in the *GOLD* management application. In 2009 these receivables totalled €2.8bn.

274. Revenues derived from tax audits are not valued in a fully secured environment. The lack of integration of the application did not generate sufficient remedial controls to guarantee the completeness of the assumptions in the accounting records. As a reminder, in 2008 the stake of the external fiscal control and control of documents represented €12.7bn.

275. An impairment was recorded on the taxpayers' liabilities at the year-end in order to account for the risk of non-collection. The rate applied for the calculation of the provision has not changed for three years despite the context of the economic crisis and no additional control has been carried out to confirm the occurrence of the impairments.

Insufficient substantiations

276. The elements substantiating the recognised flows are insufficient and often unsuitable. They do not allow the *Cour des comptes* to systematically go back to the per unit data at the source of the accounting entries. This situation limits in a significant manner the scope of the audits by the *Cour des comptes*.

277. The automatic entries made in 2009 were not part of precise and exhaustive documentation. The Administration identified the accounts and services involved in the production of accounting entries. While this approach has made notable progress, the latter

remains insufficient. Only effective and structured controls of the financial data can make it possible to obtain assurance as to the continuity of the audit trail and to ultimately justify the automated entries in the financial statements of the Central Government.

278. The documentation relative to the methods for the valuation of the most significant aggregates constitutes a definite advance. But it is not sufficient to confirm the manual entries, if it is not accompanied by substantiating documents based on a structured control supported by management data that are auditable. AS it happens, the general summary of the roles was not communicated to the *Cour des comptes* until after the completion of the final missions, which prohibits the use thereof in the certification engagement. Moreover, the *Cour des comptes* continues to have no access to the depersonalized per unit data relative to individual taxpayers. These data however are at the origin of the accounting entries.

279. Even though the Administration has provided the inventory of the most sizeable proceeds in cash, which are listed in the balance sheet in the amount of €3.6bn, the insufficient quality of the supporting documentation presented to the *Cour des comptes* did not enable it to carry out its due diligence under satisfactory conditions.

280. The development of new applications and new requests does not systematically take into account the mandatory requirements related to the traceability of transactions.

281. As an example, the Administration modified the statistical statement of collections derived from the *MEDOC* application in order to cross-reference the data that it contains with those listed in accounting. The lack of information on the adjustment thus practiced does not enable the *Cour de comptes* to confirm the occurrence of the recognised liabilities.

282. Likewise, a new request was prepared in 2009 to collect and value the additional late interest fees. The elements reported do not allow the preparer of the financial statements and, all the more the *Cour des comptes*, to check the integrity of the data produced. It results from that an uncertainty on the valuation of the additional late interest fees which are listed in the balance sheet in an amount equal to €1bn as at 31 December 2009.

**Insufficient analysis and
identification of flows**

283. The accounting consequences of the tax programmes and their developments are not systematically identified and translated into the financial statements, leading to the finding of an uncertainty as to the completeness and presentation of the recognised flows.

284. Certain tax programmes are missing from the field of accounting entries and disclosures in the notes. Thus, the guarantees presented which enable a taxpayer to defer the payment of tax are neither assessed nor presented in the financial statements if they are translated by a cash flow.

285. Similarly, the amounts remaining to recover as customs fines and penalties relative to indirect contributions resulting from a transaction or a court decision are not recorded in the balance sheet. They represent a potential liability of €3.6bn.

286. The deficient analysis of these tax programmes is at the source of multiple adjustments requested by the *Cour des comptes* and accepted by the Administration for the preparation of the financial statements. Thus the stakes related to the capital gains carryforward tax programme are presented for the first time in the financial statements. Other changes have made it possible to correct errors in the presentation of the financial statements such as the pro forma entries related to the reclassification of operating income into tax income (€0.9bn) and supplemental late interest fees (€1.2bn).

**Financial disclosure in the notes to
financial statements**

287. The information presented in the notes in the allocated taxes and fees statement is insufficiently complete to account for the allocation of gross receipts between the budget of the Central Government and the financing of the third-party beneficiaries.

288. The Central Government collects allocated taxes and fees (ITAF) which it pays in turn to third parties such as local authorities, social security agencies or implementing partners. These transactions, not retraced in the financial statements, have been part since fiscal year 2008 of a special presentation in the notes, at the request of the *Cour des comptes*, by virtue of the principle of proper disclosure. In 2009, the respective parts of the Central Government and the beneficiaries are presented,

respectively for €258bn and €144bn. The quality of data reported also improved in order to become compliant with the logic of accrual accounting.

289. However, the methods of manual identification of this information do not guarantee the completeness of the data shown in the statement provided in the notes.

290. Moreover, the presentation of the distribution between the part of the Central Government and the part of the beneficiary has not been true to reality. The tax basis and recovery fees are not listed in the table with respect to taxes allocated on which they are based, and the part of Central Government is not presented for the tax on insurance agreements (€2.4bn)

291. Finally, no comparative information is provided in the statements of allocated taxes and funds, which prevents the reader from appreciating correctly the developments relative to the allocation rules.

7 - Real estate holdings of the Central Government

292. The portion of uncertainties that continues to weigh on the identification, valuation and inventory procedures applicable to the real estate holdings of the Central Government, leads the *Cour des comptes* to maintain the substantial qualification.

293. The real estate holdings of the Central Government are listed in its financial statements as at 31 December 2009 for a net book value of €67.8bn compared to €62.4bn at the end of 2008. For the most part, this valuation is marked to market. Certain assets, whose use by third parties is only possible if major amendments are made (such as the historical monuments) are measured at the symbolic amount of €1. Penitentiary institutions are measured at their written-down replacement cost.

294. 2009 was marked by the transition of the tools for monitoring the real estate holdings into the *RE-FX* modules (physical inventory of the assets of the Central Government and the implementing partners) and *FI-AA* (accounting inventory solely of the assets controlled by the Central Government, within the meaning of Standard 6) of the *Chorus* software package. The migration was also supposed to make it possible to respond to the concerns of the *Cour des comptes* regarding the auditability of the recognition of the real estate holdings of the Central Government;

Identification of the real estate holdings

295. Accrual accounting and ancillary accounting of the property, plant and equipment present material differences.

296. The work for the reconciliation of ancillary accounting of the real-estate holdings and the accrual accounting of the Central Government showed differences totalling €1.3bn as at 31 December 2009.

297. According to the Administration, these differences are related to the fact that the holdings could not be integrated in *RE-FX* as of that date. A plan to increase the reliability enabling the identification of assets concerned was implemented in 2010, without impact however on the 2009 financial statements.

298. The current methods used to identify the real estate holdings still do not make it possible to guarantee occurrence and completeness.

299. The recovery methods did not enable the *Cour des comptes* to obtain assurance as to the completeness of the identification of the real estate holdings of the Central Government with a level of precision that would be satisfactory in terms of the audit assertions. This aspect of the audit trail, considered as the most probative audit factor, is therefore not easily practicable

300. The insufficient reliability of the notion of control of the assets identified in the *RE-FX* module and the records of which it is the subject does not enable the *Cour des comptes* to obtain assurance as to the correct recording in the financial statements of the Central Government of the only assets that are supposed to be included therein.

Asset valuation

301. The parameters of the *RE-FX* module do not enable the *Cour des comptes* to obtain assurance as to the proper discounting of the marked-to-market assets and causes an uncertainty to weigh on the valuation of the assets of the Central Government.

302. The end-of period guidelines provided for various methods making it possible to establish the market value of the assets recorded in the *RE-FX* module (valuation on site, office-based, at one symbolic euro, flat rate, by discounting). Compliance with these procedures is an essential factor determining the reliability

of the valuations recorded in the balance sheet of the Central Government.

303. The data included in *RE-FX* without a valuation date are automatically discounted. This treatment should normally exclude the assets that had already undergone a valuation through a different method in 2009.

304. The absence of automated control of the valuation date entered by the valuator deteriorates the quality of this information which is nevertheless important and entails a risk of error that the *Cour des comptes* cannot quantify, for lack of tools enabling it to separate the wrongly discounted assets. Neither is it in a position to obtain assurance about the compliance with the provisions relative to assets that should be valued through on-site inspections or through an office-based audit.

305. The insufficient quality of the relationship between physical and accounting inventory entails a risk of error in the calculation of the revaluation difference and the valuation of fixed assets which materialise the irregularities found by the *Cour des comptes* in the course of the audit.

306. The changes in the value of the marked-to-market assets are recognised annually as a revaluation differential, which can increase or decrease the balance sheet of the Central Government. It results from the difference between the discounted market value of the assets in *RE-FX* at the period-end and the sum of values listed in *FI-AA* as at 1 January of the fiscal year and the works likely to be capitalised which have gone through acceptance tests in 2009.

307. The audits of the *Cour des comptes* were limited by the insufficient relationship linking the items valued in the *RE-FX* module and the fixed assets to which they correspond in the *FI-AA* module.

308. Certain fixed assets are matched to a “site component” in the physical inventory, others to a “leased space” and yet others are to both of these levels, for different values. An item recorded in the physical inventory may be matched to several fixed assets in *FI-AA*. A fixed asset may conversely not be related to any item in *RE-FX*.

309. The values of the assets retraced in the physical inventory and in the accounting inventory, present unjustified differences that the *Cour des comptes* values at €721m (as absolute amount) for 2009.

310. The disagreement on the classification of the assets of the Military Fuel Service (SEA) leads to an uncertainty on their valuation on the balance sheet of the Central Government as at 1 January 2009 and at year-end.

311. The SEA installations (canalisations, storage capacities, pump stations, unloading areas, parking garages, and heliports) which were valued at €758.5m were transferred to the real-estate holdings of the Central Government as at 1 January 2009 under "Specific specialised buildings belonging to the Central Government" for an amount of €16.4m.

312. With respect to their nature, certain of these assets should not have been valued at one symbolic euro, but on the basis of their acquisition cost or at their written-down replacement cost.

Other period-end reporting procedures

313. The completeness of the provisions for asbestos removal recognised at the close of 2009 has not been demonstrated.

314. The provisions for asbestos removal are listed in the 2009 financial statements of the Central Government in the amount of €49.7m. Major efforts have been granted by the Administration over the course of the fiscal year, particularly to the Ministries of Defence and of Culture and Communication to carry out their inventory and their valuation.

315. However, absent any supporting elements produced within a timeframe compatible with the performance of the audit, the *Cour des comptes* is unable to express an opinion with reasonable assurance with respect to all the ministerial departments concerned regarding the completeness and the proper valuation of their assets as at 31 December 2009.

316. The accounting treatment of the subsequent expenses on the park of National heritage still carries an uncertainty.

317. Pending a clarification of the applicable standards, the *Cour des comptes* has accepted the proposal of the Administration intended to capitalise the subsequent expenses improving the length of use or the potential of the service of monuments nevertheless valued at one symbolic euro. This agreement was nevertheless made contingent on the proof of the low amounts concerned and the choice of an amortisation and depreciation schedule consistent with that of the use of the thus capitalised assets. Absent any probative element provided within a timeframe compatible with the audit, the *Cour des comptes* was unable to obtain assurance about the compliance with those conditions.

8 - Social debt redemption fund

318. The ministry for the budget and public accounts expressed its intention to settle the disagreement noted by the *Cour des comptes* in relation to the previous fiscal year, regarding the classification of CADES as a participation not controlled by the Central Government by matching it in a clearer manner to the social security domain.

319. Considering the provisions that governed it as at 31 December 2009, the *Cour des comptes* found that CADES should have been deemed a controlled participation of the Central Government as at that date.

320. The financial stake from this disagreement is highly material, since such a re-categorisation would have resulted in a decreased total equivalent value of Account 26 by €80bn in the opening balance and an additional €11.7bn as at 31 December 2009.

321. The social debt redemption fund (CADES) was created in 1996 in order to finance and extinguish the debt accumulated by the general social security system through resources that are allocated specifically to it. It is included with the long-term investments of the Central Government as a non-controlled entity with a zero acquisition costs, as its liabilities are greater than its assets.

322. With respect to the criteria raised by Accounting Standard 7, the *Cour des comptes* reiterates its finding according to which CADES should be a part of the entities controlled by the Central Government.

323. Standard 7 invites, in fact, to verify whether at least one of the criteria relative to the control power and whether at least one of the benefits and risks criteria have been met, before classifying a participation as a controlled entity.

324. The set of criteria relative to control power have been met in the case of CADES, unlike the other social security or social-security financing agencies.

325. CADES is a national public establishment of an administrative nature, placed under the oversight of the Minister in charge of the Economy and Finances and the Minister in charge of Social Security.

326. Its board of directors, which is the decision-making body thereof, comprises six members appointed by decree, including five representing the two aforementioned ministers. In addition, its proceedings regarding the budget and the financial account are subject to the express approval of the aforementioned ministers. Through its representatives, the Central Government is able to gather the majority of the voting rights at the meetings of the board of directors.

327. Finally, the Central Government holds a power of control over CADES by virtue of explicit provisions. Indeed, the public establishment is placed under its oversight. Its programme for the issuance of loans is decided by the board of directors and is subject to the approval by the Minister in charge of the Economy and Finances. CADES' involvement in the markets is both separate from that of the Central Government and coordinated with its own issuances.

328. Several benefits and risks criteria are met.

329. The legislative nature of CADES does not for that deprive the Central Government of the power to make it cease its activities and of the obligation to assume its residual debt should this public establishment be liquidated.

330. CADES benefits from an allocated source, the CRDS, instituted by the financing of social security Act for 1997 and a tax basis equivalent to that of the CSG. The Central Government is required, in application of Article 20 of constitutional bylaw 2005-881 of 2 August 2005 relative to the financing of social security Act to accompany any transfer of debt to CADES with supplementary resources.

331. Article 7 of the Order of 1996 places, in addition, the Central Government in a situation of having to cover any potential liquidity default of CADES:

332. The Central Government finally has the obligation to ensure the solvency of CADES through the implied guarantee given to all the public institutions. This obligation is even stronger as CADES, which borrows on international markets, discloses the existence of such guarantee.

333. The Administration has not yet proved the existence of “restriction to the control” justifying that the classification of CADES as a controlled participation could be overridden.

334. The regulatory provisions relative to this “restriction” affect essentially Banque de France (whose independence is guaranteed by the Treaty on Functioning of the European Union) and the Caisse des dépôts et consignations (whose nature is very different from that of the CADES).

335. In a letter addressed to the *Cour des comptes*, the Minister for the budget and public accounts has indicated the intention to match without ambiguity the liabilities of CADES to the scope of combination or aggregation of the financial statements of social security. The first decisions taken to that effect constitute the beginning of a clarification.

336. The Minister who does not dispute that the reasoning of the *Cour des comptes* is well-founded, recognised that the current ambiguity which places CADES outside both of a combination scope of the social security general subdivision and of the Central Government control, was a irregularity that should be corrected.

337. The intention to place it within the scope of social security was translated by enhanced notes to the financial statements of the branches. In accordance with an opinion recently adopted by the public accounts standardisation council, the elements relative to the debts assumed by CADES and the amounts remaining to be amortised are included therein for the first time this year.

338. These provisions are not sufficient to resolve the disagreement found by the *Cour des comptes* for the previous fiscal year.

339. Full accounting transparency requires that the preparation of more enhanced financial information goes through an amendment of the constitutional bylaw on budget acts (LOLF) relative to social security.

340. The decisions taken for fiscal year 2009 do not settle the question of control exercised by the Central Government on the institution in the sense of the criteria of Accounting Standard 7 or consequently the disagreement relative to the terms of its recognition.

341. The minister for the budget and public accounts mentions in a letter of 5 March 2010 the possibility:

- To continue applying in the future the principle of a broader presentation of the financial statements of the social security, including their assets and liabilities that would include CADES;
- To change the governance of CADES so that the criteria of control by the Central Government could no longer be met (reinforcement of the place of management and withdrawal of the prior authorisation of the Minister of the Economy for the Fund's annual financing plan).

342. To these prospects, whose reliability is being considered by the Central Government, should then be added, in order to ensure a complete vision of the need to finance all the entities that would be part of the accounting scope of social security, including CADES, ACOSS and MSA the production of a forecast and actual cash flow statement. This statement would make it possible to capture the annual increase of the social debt. Inspired by the cash flows statement of the Central Government and taking into account the specificities of the financing of social security, this document would serve as approval of the issuance program of CADES.

343. The decisions enabling the *Cour des comptes* to find that CADES no longer meets the criteria justifying its classification among the controlled entities have not been taken at this stage.

D - Other qualifications relative to the 2009 financial statements of the Central Government

9 - Fixed assets and inventories of civil ministries

344. The uncertainty found under qualification No. 8 for the 2008 financial statements regarding the counting and valuation of the fixed assets and inventories of the civil ministries (excluding concessions, real-estate holdings and roads) is still maintained in 2009, but at a lesser level which no longer justifies that a substantial nature be related thereto.

345. The tangible and intangible fixed assets of the civil ministries (excluding real estate holdings and roads) represented €27bn gross as at 31 December 2009 (€18.6bn net) including €2.1bn for ancillary budgets, business accounts, and public authorities.

End-of period reporting of fixed assets and inventories of civil ministries

346. Faced with the recurring irregularities that these audits have led it to note and faced with the persistent default in linking the tools for monitoring the assets and the accounting of the Central Government, the *Cour des comptes* concludes that there is a significant uncertainty on the completeness and valuation of the fixed assets and inventories of the civil ministries as at 31 December 2009.

347. The intangible and tangible fixed assets as well as the inventories of the civil ministries are the subject of exhaustive accounting inventory. The *CISIS* application, which combines the electronic files of all those ministries, for up to €5.3bn in gross amounts is intended to justify the accounting balances. While it should present all the guarantees and reliability for the transfer of its content to the asset management module in Chorus, it does not yet fulfil that role, in 2009, in a satisfactory manner.

348. The insufficient traceability of the inventoried assets in the *CISIS* application leads to an uncertainty on the intangibility of the data present in the database for the previous fiscal years.

349. The inventory numbers of the assets identified are not unique as far as the national plan is concerned and may change from one year to the next, which makes it impossible to use them for purposes of control, in particular to verify the restart of prior data.

350. The corrections of inflow data and internal disposal among the departments are not identified in the *CISIS* database.

351. The insufficient reliability of the information associated with the assets inventoried in *CISIS* does not make it possible to conclude that the valuation of the latter was correct.

352. The audit through sampling of the entry values of certain uniform categories of material assets emphasises very strong disparities that remained unexplained.

353. The analysis of the entry values of specific equipment such as ships and aircraft shows also major differences that have not been justified either. The reliability of the entry values therefore is not guaranteed.

354. The data relative to the amortisations include numerous irregularities such as erroneous carry forward of prior cumulative amounts, amounts that are incompatible with the dates of putting in service or allowances that are inconsistent with the amortisation and depreciation schedules applied.

355. For numerous assets, the data in the *CISIS* database do not correspond in a satisfactory manner with those presented in the logistics information systems located upstream from the main workflow.

356. The logistics information systems used for the management of equipment of certain ministries provide information intended to support the amounts and quantities recorded in the electronic end-of-period files.

357. The Home Ministry and MEEDDM, principal managers of other property, plant and equipment of the Central Government have such systems for some of their high-value equipment, notably the rolling stock. The reconciliation of the information derived from those information systems and those from the *CISIS* database shows, except for what concerns the National Police Guard, unexplained differences. By not taking sufficiently into account data present in the logistics information systems, the preparer of the financial systems is depriving itself of a means that is nevertheless essential for securing the content of the inventories.

358. The *Cour des comptes* has not been able to reconcile the data from the *CISIS* database to the accounting data. The material deviations that were found have not been justified.

359. The procedure followed by the Administration to connect the data from the physical inventories to the accounting data is not conclusive. It consists, not in reconciling strictly balances derived from accrual accounting and net asset values, but in adding to the opening book balances, corrected beforehand, flows for the year, recorded in the inventories and then comparing that total to the closing book balances.

360. Neither the balances nor the flows recorded in the general accounting application *CGL* correspond to the movements and the data inventoried in the *CISIS* database. The differences noted are not properly substantiated in the year-end file provided by the preparer of the accounts.

The assets of the civil aviation supplementary budget

361. The *Cour des comptes* notes an uncertainty about the completeness and the valuation of the fixed assets of the civil aviation supplementary budget in the financial statements of the Central Government.

362. The Supplementary Air Operations and Control Budget (BACEA) contributes up to €1.7bn to the total of other fixed assets of the civil ministries. Its financial statements are included at the year-end into those of the Central Government.

363. The result of this inclusion presents discrepancies from the data of BACEA's accrual accounting. For lack of having had available within reasonable timeframes the necessary audit evidence, the *Cour des comptes* was unable to express an opinion on those discrepancies.

364. Moreover, those data are not reconciled to the auxiliary accounting for fixed assets of the supplementary budget.

Internally produced software

365. The Cour des comptes renews for 2009 the uncertainty on the valuation of the balance sheet of the Central Government with respect to internally produced software, noted in relation to the certification of the financial statements of the Central Government for 2007 and 2008.

366. The gross amount of the assets concerned as at 31 December 2009 was €1.5bn, including 0.8bn for the Financial Ministries alone. This amount corresponds, on the one hand, to capitalised internal personnel expenses, and on the other hand, to external costs posted to assets.

367. The systems for monitoring the internal costs and the external costs of the IT projects of the Central Government present numerous and persistent deficiencies.

368. The applications used to monitor working hours intended to be long-term investments are heterogeneous and have no interface with the accounting applications. These hours are valued by using an average cost which is not supported by payroll data.

369. The monitoring of external costs does not make it possible to obtain assurance as to the exhaustive nature of the amounts under long-term investments. Confusion persists between expenses and long-term investments in relation to the recognition of those costs.

370. The end-of year inventory data have not, in addition, been reconciled to the book balances in a satisfactory manner.

371. The controls carried out by the *Cour des comptes* on the valuation of the assets recorded in the balance sheet of the Central Government for the two principal civil IT projects of the Central Government, *Copernic* and *Chorus*, illustrate the effect of those deficiencies.

372. These controls showed material irregularities relative to the external expenses that could have been recorded as fixed assets but were expensed.

373. The conditions under which the payroll expenses related to those projects were capitalised do not make it possible to conclude on the completeness and proper valuation of the corresponding assets.

III - Report on the financial statements of the Central Government for 2009

374. The Court has divided its certification mission into two phases. First, it performs “interim” audits during the course of the fiscal year, then “final” audits after the accounts are closed but before the statement of accounts. The certification mission is an annual responsibility which is the subject of continuous exchanges of information with the Administration.

375. The calendar for the preparation of the accounts is defined in the LOLF, which sets 1 June when the budget review bill is filed as the date by which are appended the general account of the Central Government and the certification document. In Article 28, the LOLF in addition maintains a period in excess of the calendar year limited to a maximum of twenty days.

376. The schedule for the preparation of the budget review bill is a major constraint imposed on the Administration as well as the Court. The time periods for preparing the Central Government’s general account do not make it possible either for the authorising officers or the accountants to proceed with controls giving the preparer of the financial statements the means to secure the process of setting up the financial statements, and particularly the period-end transactions. For such a significant and complex entity as the Central Government, the *Cour des comptes*, for its part, should be able to have a longer time period so as to extend the scope of its audit.

377. The provision, on 4 March 2010, of a first stabilised usable general balance is a step forward, which nevertheless remains insufficient. In fact, the *Cour des comptes* only had 21 business days to perform its final audits, which require the implementation of difficult procedures for receipt and processing of accounting data and for providing supporting documents produced by all of the Government departments.

378. Recourse for the third year to an interim closing of the accounts helped make the accounting entries more reliable, particularly the flows for the year. Its scope however will have to be expanded to cover end-of-period reporting transactions and the methods for the preparation must include a greater involvement of computers in order to lighten the burden of final audits. The closing guidelines should also be submitted earlier in the year.

1 - Interim audit missions relative to the 2009 financial statements of the Central Government

379. The interim audit missions took place from September to December 2009. Their purpose was to evaluate the risk of material misstatements in the accounts by verifying in particular the proper application of accounting procedures and the effectiveness of the internal control systems.

The content of interim missions

380. The assessment of the risk of material misstatements in an accounting area makes it possible to adapt subsequently the intensity of the audits.

381. The interim audits were performed in the 16 “ministries”, according to the sense of the term given in the Budget Act for 2009. These audits included a portion that was common to the whole Administration and a portion adapted to the accounting stakes applicable to each Ministry.

382. The transversal part pertained to the deployment of ministerial mechanisms for the control of accounting risks. It included notably the audit of internal controlling through ministerial mapping of accounting risks and their translation into ministerial action plans. It also pertained to the implementation of the internal audit department within the various ministries.

383. The purpose of the second part was performing in-depth controls of the procedures pertaining to the set of audit cycles as well as to the preparation for the roll-out of *Chorus* within each Ministry, based on a risk analysis specific to each one of them.

384. The Ministry of Economy, Industry and Employment and the Ministry for the Budget, Public Accounts and the reform of the Central Government were, in addition, the subject of audits which were appropriate for the procedures which they are solely responsible for (financial debt, financial futures, liquid assets, participations, sovereign revenues).

385. Concerning relations between the Central Government and the Social Security, the verifications made with the Ministry for the Budget, Public Accounts and the reform of the Central Government involved taxes and duties allocated to third parties and accounting determination procedures. Examination of internal control of operations managed by social security institutions for the Central Government’s

account, included in programme expenditure charges and transactions, were supported by verifications carried out by the *Cour des comptes* in connection with the external audit of the financial statements of the national agencies of the General System of Social Security and the combined financial statements of each branch and the collection activity of the general system, in addition to those carried out at Central Government Departments.

386. A specific study concerning the accounting and financial system and the quality of the accounts of 43 Central Government implementing partners was carried out, valued at the balance sheet at €22.34bn (representing 38.6% of the equivalent value of the implementing partners retraced to assets). The *Cour des comptes* also used the audits carried out by the National Audit Mission of the DGFIP (15 implementing partners valued for €804.6m) as well as the contributions of the audit missions of the general economic and financial audit.

387. IT audits were carried out to assess the risks associated with certain components of the Central Government's financial and accounting IT system. Were also audited: Version 3 of the *Chorus* software package providing the management of expenses, accounting and non-tax receipts of 16 programmes in 2009; the *DDR3* and *SCR3* applications that ensure the keeping of the books of the non-centralising accounting areas of the Treasury and their centralisation in the Central Government accounts; the application CEP (keeping the deposit accounts of the Public Treasury correspondents). Audit work was also carried out on the KHEOPS (management of scholarships) application of the Ministries of National Education, Higher Education and Research.

388. Electronic analysis was also carried out on the migration of the data of the old inventory and valuation tools of the real estate holdings (STGPE and TGPE) to the real property module RE-FX of *Chorus*, as well as on the reconciliation of budget data, payroll (the application PAY and ETR), pensions (PEZ) and expenses (ACCORD, NDL) and those in the general accounting (CGL).

Effect of the audits in interim missions

389. At the end of the interim audits, the *Cour des comptes*, based on Article R. 137-2 of the Code of Financial Jurisdictions, sent the Secretary-Generals of the Ministries, the Director general of the Public finances and the Directors of all directorates concerned, as applicable:

- 15 summary reports on the interim mission by sub-cycle with 281 recommendations;
- 12 statements of provisional observations with 199 recommendations, resulting after *inter partes* proceedings in a accounting valuation note by the ministry

2 - Final audits the 2009 financial statements of the Central Government

390. The final audits were planned and carried out by reference to the audit criteria relative to operating flows, end-of-period account balances as well as to their presentation and disclosures made in the financial statements.

The content of final missions

391. The audits were conducted primarily by means of test concerning the details of transactions and balances and through the implementation of analytical reviews consisting of comparing data from one fiscal year to the next. Lastly, in numerous cases, the justifications for the accounts required repeating the accounting controls all the way.

392. The audits of the financial statements of the Senate and National Assembly by external auditors designated for that purpose by the *Conseil supérieur de l'Ordre des experts comptables* and the due diligences with regard to the financial statements of the Constitutional Council were carried out according to the auditing standards. No material irregularities have been found.

393. The financial statements of the office of the President of the Republic were subjected to a review by the *Cour des comptes* at the time of the audit of the departments of the President's office. No material irregularities were found.

394. An audit of the operations carried out by the Financial Jurisdictions was conducted at the request of the First President of the *Cour des comptes* by experts designated by the *Conseil supérieur de l'Ordre des experts comptables*. No material irregularities were found.

395. Computerised analyses of the data derived from general accounting were made on all of the accounts for managing the 153 centralising Treasury local offices. The aim of this audit is to collect evidence enabling the auditor to obtain reasonable assurance as to the quality and integrity of the information derived from the CGL application.

396. Furthermore, specific audit works were carried out in order to verify by means of representative sample of complex payments, the quality and reliability of the control of the accuracy of liquidation calculation implemented by the public accountants as part of the structured expenses control system.

397. Despite the lack of a unique budgetary and accounting IT system, the Court was able this year to verify the inter-relation and the consistency of the three results submitted to the approval of the Parliament. The balance of performance of the finance Acts for the year, the definitive amount of sources and expenses of cash in the cash flow statement and the accounting result so that the actual financial position of the Central Government may be understood as a whole

398. The *Cour des comptes* audited the quality of the financial disclosures made in the notes to the 2009 financial statements of the Central Government.

Effect of the audits in final missions

399. At the end of the final audits of the Central Government's financial statements for the 2009 fiscal year, 187 audit observations were issued, of which 107 concerned requests for changes in the Central Government financial statements, i.e., 96 more than during the course of the previous fiscal year.

400. The impact of 60 modification requests that were taken into account in a satisfactory manner by the preparer of the financial statements is as follows :

In €bn	Direction of the corrected entries		Net
	Improvement	Deterioration	
Balance of transactions for the fiscal year	3.0	(5.1)	(2.1)
Net position (excluding the balance of transactions for the fiscal year)	37.9	(22.5)	15.4
Off-balance sheet entries	N/A	N/A	16.0
Reclassifications in the income statement	N/A	N/A	2.6
Reclassifications in the balance sheet	N/A	N/A	0.2

401. The impact of 43 adjustment requests that are subject to a disagreement with the preparer of the financial statements is as follows:

In €bn	Amendments requested	Amendments recognised
Balance of transactions for the fiscal year	(0.4)	(0.5)
Net position (excluding the balance of transactions for the fiscal year)	(63.4)	0.5
Off-balance sheet entries	0.0	1.3
Reclassifications in the income statement	0.2	0.1
Reclassifications in the balance sheet	3.2	0.1

402. Continued discussions between the *Cour des comptes*, the preparer of the financial statements and the main administrations involved took place in the Committee for Exchange and Follow-up, jointly chaired by both the president of the inter-chamber group “Execution of the Government Budget and Accounts” of the Court and the Director General of the Public Finances, and also in the technical group of this Committee.

403. The certification report (introduction, detailed observations about the opinion of the *Cour des comptes*, report on the audits conducted) submitted for comment to all the Ministries with regard to the part or parts concerning them and gave rise to hearing Secretary-Generals and central Administration Directors primarily concerned thereby on 3 May 2010 before the inter-chamber group “Execution of the Central Government’s Budget and Financial Statements”.

Appendix: Central Government Financial Statements for 2009

The annual financial statements of the Central Government consist of a balance sheet, an income statement (comprising a schedule of net expenses, a schedule of net sovereign revenue, and a balance of transactions for the fiscal year), a cash flow statement and the notes to the financial statements. These items, forming the general account of the Central Government, constitute an inseparable whole.

Only the balance sheet, the income statement and the cash flow statements are provided below, for the record. The notes to the account have not been included due to their volume.

The full set of financial statements comprising the general account of the Central Government was approved by the director general of public finances on 23 April 2010 and the notes to the financial statements, on 4 May; it has been certified by the Minister for the budget, public accounts and the State reform on 12 May 2010 and is appended to the final budget review bill for 2009 along with this audit opinion.

404. Balance sheet as at 31 December 2009.

In €m	31/12/2009			31/12/2008	31/12/2007
	Gross	Depreciation and Amortisation	Net	Adjusted (*) Net	Net
FIXED ASSETS					
Intangible fixed assets	48,213	14,186	34,027	36,070	22,544
Property, plant and equipment	443,805	443,805	377,523	380,335	230,765
Participations	236,605	236,605	211,133	193,390	182,639
Total fixed assets	728,623	728,623	622,684	609,795	435,948
CURRENT ASSETS (ex cash)					
Inventories	34,713	4,713	30,000	30,134	32,873
Receivables	95,128	36,936	58,192	56,827	52,646
Taxpayers	80,280	35,707	44,573	44,518	40,242
Customers	6,182	1,027	5,155	4,894	5,042
Other receivables	8,666	202	8,463	7,415	7,362
Prepaid expenses	21	0	21	31	23
Total current assets (ex cash)	129,862	41,649	88,213	86,993	85,542
CASH					
Cash in bank and at hand	18,136		18,136	10,398	522
Discounted amounts, inflows and outflows	(2,033)		(2,033)	(1,577)	(395)
Other cash items	24,737		24,737	26,914	13,656
Cash equivalents	5,302	0	5,302	10,308	8,278
Total cash	46,143		46,143	46,042	22,062
PREPAYMENTS AND ACCRUED ACCOUNTS	11,471		11,471	12,941	11,686
TOTAL ASSETS (i)	916,098	147,588	768,510	755,770	555,248
DEBT					
Transferable securities			1,164,309	1,031,844	936,277
Non-transferable securities			249	260	276
Other debt			10,708	12,007	9,203
Total debt			1,175,266	1,044,111	945,755
NON-FINANCIAL DEBT (ex Cash)					
Operating debt			4,639	4,274	4,542
Transfer liabilities			9,443	11,470	11,242
Unearned income			9,710	7,777	6,539
Other non-financial debt			116,953	130,504	86,683
Total non-financial debt			140,745	154,025	109,006

CONTINGENT LIABILITIES					
Provisions for risk			10,694	10,220	6,489
Provisions for charges			66,851	67,913	55,357
Total contingent liabilities			77,545	78,133	61,846
OTHER LIABILITIES (ex cash)			12,117	11,866	13,359
CASH					
Treasury correspondents and authorised persons			66,739	66,204	68,129
Other			719	963	843
Total cash			67,458	67,167	68,972
ACCRUALS AND DEFERRED INCOME			18,027	17,631	12,639
TOTAL LIABILITIES (EXCLUDING NET POSITION) (II)			1,491,159	1,372,933	1,211,577
Prior fiscal year carryforward			(870,532)	(797,356)	(754,744)
Revaluation and integration deviation			245,593	249,166	139,795
Balance of transactions for the fiscal year			(97,710)	(68,973)	(41,380)
NET POSITION (III= I – II)			(722,649)	(617,163)	(656,359)

(*) Figures adjusted in accordance with the rules of comparative disclosure presented in Note 2.4 adjusted comparative disclosure

405. 2009 Income Statement: Schedule of net expenses

In €m		2009	2008 (*)	2007
OPERATING EXPENSES	Personnel expenses	133,094	132,692	131 762
	Purchases, increase (decrease) in inventories and external services	20,404	19,271	18 203
	Amortisation, provisions and impairment	54,315	51,674	51 119
	Other operating expenses	14,339	10,856	14 981
	Total direct operating expenses (I)	222,152	214,492	216 065
	Subsidies for public services expenses	20,144	16,248	15 835
	Provisions	14	0	3
	Total indirect operating expenses (II)	20,157	16,248	15 838
	Total operating expenses (II = I + II)	242,309	230,740	231 902
	Sale of products and services	3,377	3,538	3 179
	Capitalised costs and change in inventory	89	130	89
	Provision and impairment reversals	45,542	43,254	46 361
	Other operating revenues	23,182	17,341	24 450
	Total operating revenues (IV)	72,191	64,263	74 080
TOTAL NET OPERATING EXPENSES (V = III - IV)	170 118	166,478	157,823	
Transfer programme expenses NET	Transfers to households	29,713	27,683	25 270
	Transfers to businesses	14,289	12,404	18 522
	Transfers to local authorities	82,123	74,875	71 164
	Transfer to other authorities	22,325	19,762	15 702
	Expenses resulting from the enforcement of guarantees	29	62	243
	Amortisation, provisions and impairment	22,422	29,279	19 973
	Total transfer expenses (VI)	170,902	164,065	150 873
	Contributions received from third parties	6,076	6,374	12 955
	Provision and impairment reversals	23,260	21,545	24 640
Total transfer revenues (VII)	29,336	27,919	37 595	
TOTAL NET TRANSFER CHARGES (VIII = VI - VII)	141 566	136,146	113,278	

NET FINANCIAL EXPENSES	Interest	39,009	40,452	38,343
	Foreign exchange losses related to financial transactions	212	318	265
	Amortisation, provisions and impairment	4,464	2,608	1,577
	Other financial expenses	1,606	19,816	13,758
	Total financial expenses (IX)	45,292	63,195	53,943
	Revenue from receivables and non-current assets	8,502	10,489	9,158
	Foreign exchange gains related to financial transactions	195	358	225
	Provision and impairment reversals	8,091	7,053	1,489
	Other interest and related revenues	2,588	3,230	4,779
	Total financial revenues (X)	19,376	21,129	15,651
	TOTAL NET FINANCIAL EXPENSES (XI = IX – X)	25,916	42,066	38,292
TOTAL NET EXPENSES (XII = V + VIII + XI)	337,600	344,689	309,393	

(*) The 2008 adjusted comparative data will be presented at a later time

406. 2009 Income statement: Schedule of net sovereign revenues and balance of the transactions for the fiscal year

In €m	2009	2008 (*)	2007
Tax on income	46,752	51,184	49,267
Corporate tax	31,593	52,064	46,795
Tax on salaries	0	0	1
Domestic tax on oil products	14,431	15,614	16,910
Value-added tax	127,331	131,735	129,746
Registration, stamp duty, other contributions and indirect fees	13,616	16,908	18,720
Other revenues of a tax and related nature	17,300	18,233	15,631
TOTAL NET TAX REVENUES (XIII)	251,023	285,739	277,070
Fines, various levies and other penalties	7,194	6,597	6,341
TOTAL OTHER NET SOVEREIGN REVENUES (XIV)	7,194	6,597	6,341
European Union own resources based on national revenue			
Gross	(14,697)	(11,906)	(10,959)
European Union own resources based on value added tax	(3,630)	(4,714)	(4,441)
TOTAL SOURCES OF THE EUROPEAN UNION BUDGET BASED ON THE GROSS NATIONAL REVENUE AND TAX ON VALUE ADDED TAX (XV)	(18,327)	(16,620)	(15,400)
TOTAL NET SOVEREIGN REVENUES (XVI = XIII + XIV - XV)	239,890	275,716	268,012

In €m	2009	2008 (*)	2007
Net operating expenses (V)	170,118	166,478	157,823
Net transfer programme expenses (VIII)	141,566	136,146	113,278
Net financial expenses (XI)	25,916	42,066	38,292
NET EXPENSES (XII)	337,600	344,689	309,393
Net tax revenues (XIII)	251,023	285,739	277,070
Other net sovereign revenues (XIV)	7,194	6,597	6,341
European Union own resources based on national revenue			
Gross and on value added tax (XV)	(18,327)	(16,620)	(15,400)
NET SOVEREIGN REVENUES (XVI)	239,890	275,716	268,012
BALANCE OF TRANSACTIONS FOR THE FISCAL YEAR (XVI - XII)	(97,710)	(68,973)	(41,380)

(*) The 2008 adjusted comparative data will be presented at a later time

407.

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409. Cash flow statement for 2009

In €m	2009	2008 adjusted	2007
INFLOWS	426,568	458,620	455,362
Inflows from sale of products and services	1,602	1,663	1,742
Other operating revenues	4,415	7,649	7,546
Inflow of taxes and fees	316,959	345,093	344,940
Other sovereign revenues	5,962	4,624	4,689
Transfer programme revenues	8,400	9,285	8,216
Interest and dividends received	10,533	14,481	13,035
Other inflows	78,697	75,825	75,195
OUTFLOWS	535,275	498,829	480,519
Personnel expenses	122,829	123,819	124,473
External purchases and services paid	18,848	18,732	18,282
Reimbursement and refunds of taxes and fees	84,871	66,715	59,666
Other operating expenses	6,492	6,498	6,427
Subsidies for public services expenses paid	19,711	16,134	15,216
Transfer programme expenses	145,868	133,383	129,909
Payment resulting from the enforcement of the Central Government guarantee	108	234	363
Interest paid	41,573	44,539	42,302
Other outflows	94,975	88,775	83,881
NET CASH FROM OPERATING ACTIVITIES (1)	(108,707)	(40,210)	(25,157)

CASH FLOW FROM INVESTING ACTIVITIES	ACQUISITION OF FIXED ASSETS	45,085	24,061	25,403
	Tangible and intangible fixed assets	15,858	13,096	13,668
	Participations	29,227	10,965	11,735
	DISPOSALS OF FIXED ASSETS	20,362	11,886	17,750
	Tangible and intangible fixed assets	477	401	1,116
	Participations	19,885	11,485	16,633
CASH FLOW FROM INVESTING ACTIVITIES (II)		(24,723)	(12,174)	(7,653)
CASH FLOW FROM FINANCING ACTIVITIES	BOND ISSUANCE	259,848	191,765	118,518
	OAT	107,343	74,682	61,167
	BTAN	76,666	57,258	45,141
	BTF balance	75,839	59,825	12,209
	REDEMPTION OF BONDS (ex BTF)	125,666	112,851	79,695
	Transferable bonds	124,079	102,583	79,076
	OAT	65,354	41,176	34,662
	BTAN	58,724	61,408	44,414
	Non-transferable bonds	1,588	10,268	619
	CASH FLOW RELATED TO DERIVATIVES	256	380	-519
CASH FLOW FROM FINANCING ACTIVITIES (III)		134,438	79,304	38,304
Net unallocated cash flow (IV)		(1,199)	(1,335)	397
Increase (decrease) in cash (v= I+ II + IV = Vii – VI)		(191)	25,585	5,891
Cash at the beginning of the period (VI)		(21,125)	(46,589)	-52,800
Cash at the end of the end period (VI)		(21,316)	(21,004)	-46,910

(*) Figures adjusted in accordance with the rules for the presentation of comparative disclosure presented in Note 2.4

Adjusted comparative information

List of the Reports Published by the *Cour des comptes* since 1 January²⁰⁰⁷

- * Rapport public annuel [Annual public report] (February 2010)
- * Rapport public annuel [Annual public report] (February 2009)
- * Rapport public annuel [Annual public report] (February 2008)
- * Rapport public annuel [Annual public report] (February 2007)
- * **Reports on Execution of the Budget Acts for the Year 2009:**
 - Outturn and Management of the Budget of the Central Government – 2009 Fiscal Year (May, 2010)
 - Audit Opinion on the Central Government Financial Statements – 2009 Fiscal Year (May 2010)
- * **Reports on Execution of the Budget Acts for the Year 2008:**
 - Situation and Outlook of Public Finance (June 2009)
 - Outturn and Management of the Budget of the Central Government – 2008 Fiscal Year (May 2009)
 - Audit Opinion on the Central Government Financial Statements – 2008 Fiscal Year (May 2009)
- * **Reports on the Execution of the Budget Acts for the Year 2007:**
 - Situation and Outlook of Public Finance (June 2008)
 - Outturn and Management of the Budget of the Central Government – 2007 Fiscal Year (May 2008)
 - Audit Opinion on the Central Government Financial Statements – 2007 Fiscal Year (May 2008)
- * **Reports on the Execution of the Budget Acts for the Year 2006:**
 - Situation and Outlook of Public Finance (June 2007)
 - Outturn and Management of the Budget of the Central Government – 2006 Fiscal Year (May 2007)
 - Audit Opinion on the Central Government Financial Statements – 2006 Fiscal Year (May 2007)

*** Audit opinion on the financial statements of the general *sécurité sociale* system:**

Audit Report on the Financial Statements of the General Social Security System – 2008 Fiscal Year (June 2009)

Audit Report on the Financial Statements of the General Social Security System – 2007 Fiscal Year (June 2008)

Audit Report on the Financial Statements of the General Social Security System – 2006 Fiscal Year (June 2007)

*** Report on the Execution of the Social Security Budget Act:**

Report on the Execution of the Social Security Budget Act (September 2009)

Report on the Execution of the Social Security Budget Act (September 2008)

Report on the Execution of the Social Security Budget Act (September 2007)

Special Public Reports:

Public facilities granted to credit institutions: Report and lessons learnt (May 2010)

L'éducation nationale face à l'objectif de la réussite de tous les élèves [National education faced with the objective for the success of all students] (May 2010)

Les effectifs de l'Etat 1980-2008 - Un état des lieux [Central Government's workforce 1980-2008 – Status report] (December 2009)

Les collectivités territoriales et les clubs sportifs professionnels [Local authorities and professional sports clubs] (December 2009)

Le transfert aux régions du transport express régional (TER) : un bilan mitigé et des évolutions à poursuivre [Transfer to the regions of the express regional transport (TER): mitigated report and developments to follow] (November 2009)

La conduite par l'Etat de la décentralisation [The decentralisation carried out by Central Government] (October 2009)

France Télévisions et la nouvelle télévision publique [France Télévisions and the new public television] (October 2009)

La protection de l'enfance [Child protection] (October 2009)

Public facilities granted to credit institutions: Initial findings, first recommendations (July 2009)

Les communes et l'école de la République [Communes and school of the Republic] (December 2008)

La formation professionnelle tout au long de la vie [Life-long learning and professional training] (October 2008)

French airports Under Changing Air Transport (July 2008).

La mise en œuvre du plan cancer [Cancer program implementation] (June 2008)

Te Railway Network, An Incomplete Reform, An Uncertain Strategy (April 2008)

The Great Cultural Sites (December 2007)

Aids to Economic Development of National Municipalities (November 2007)

Social Institutions for Personnel of the Electric and Gas Industries (April 2007)

Management of Public Research in the Life Sciences (March 2007)

Homeless Persons (March 2007)

*** Control of the agencies receiving charitable public funding**

La Fondation pour l'enfance [Childhood foundation] (April 2010)

La Fondation Hôpitaux de Paris - Hôpitaux de France [foundation] (February 2010)

La Société protectrice des animaux [Animal Protection Agency] (September 2009)

L'association France Alzheimer et maladies apparentées : l'impact des recommandations de la Cour [France Alzheimer and related disease association : the effect of the recommendations of the Cour des comptes] (June 2009)

Le Comité Perce-Neige : l'impact des recommandations de la Cour [Perce-Neige Committee: the effect of the recommendations of the Cour des comptes] (June 2009)

L'association Sidaction : l'impact des recommandations de la Cour [Sidaction association: the effect of the recommendations of the Cour des comptes] (June 2009)

Les Restaurants du Cœur – Les Relais du Cœur : l’impact des recommandations de la Cour [Restaurants du Cœur – Relais du Coeur: the effect of the recommendations of the Cour des comptes] (June 2009)

Amnesty International French Section (AISF) (December 2008)

La ligue nationale contre le cancer [National league against cancer] (octobre 2007)

The Quality of Financial Information disclosed to Donors by Charitable Organisations (October 2007)

“Aid For All Kinds Of Distress” Foundation – ATD Quart Monde (March 2007)

“Catholic aid” association (March, 2007)

