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**« Experience regarding promotion,  
monitoring and assessment of  
internal control implementation in  
the public sector »**

**An assessment of ministerial schemes for  
internal control in the Court's opinion on  
the states' annual financial report**

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# **(1) The link between internal control and budget by objectives**

- **The Constitution Bylaw on Budget Acts (LOLF) voted in 2001 and applied to the central government budget for the first time in 2006**
- **3 objectives : a new budgetary framework / an improved accountability at all levels of public management / performance indicators**

- The introduction of the accrual accounting system.
- Article 27 LOLF : « the states's accounts must be compliant, sincere and give a faithful reflection of its assets and liabilities »
- The State's collected accounting standards



- **Internal control of accounting is the set of organised, formalised, permanent schemes or processes chosen by management and implemented by supervisors at all levels to oversee the conduct of their activities with a view to providing a reasonable assurance as to the regularity, truth and correctness of accounting records in relation to the events they describe ("faithful reflection").**

## (2) The Court's remit

- Article 58 LOLF assigns to the Court the remit of issuing an audit opinion on the regularity, truth and fairness of the State's financial reports
- To enlighten the Parliament whose task it is, in compliance with section 3 of article 37 of the LOLF, to approve the State's financial reports.



- **The State's annual Financial Report**
  - **Departments, establishments and institutions of the state that have no separate legal status**
  - **The content of the report**
  - **An annual report on the State's internal control**





- **The Audit Opinion on the State's financial report**
  - Appended to the draft budget settlement law for the preceding financial year
  - Reference to international audit standards set out by the International Federation of Accountants
  - Three core principles : institutional independence ; right to reply ; collegiate process



- Since 2006, a Qualified opinion conceived as a « supportive approach to the gradual implementation of the accounting reforms »
- 10 qualifications lifted in 4 years ; the State's Annual Financial Report for the year ended on 31 December 2010 and settled on 17 May 2011 is regular and truthful and accurately reflects the State's financial position and assets, subject to the seven substantive qualifications





### **(3) A persistent qualification on ministerial internal control systems**

- **2011 : Qualification No. 2: additional improvements have been observed both as regards the gradual rollout of the ministerial schemes for internal control and in the structure of internal audits, but the ministries are still not in a position to make a sufficiently substantiated assessment as to the extent of their control over accounting and financial risks.**



- A risk assessment must serve as the basis for the implementation of actions designed to mitigate risks on the « faithful reflection ».
- Internal auditing, which provides an independent assessment of internal control, should contribute to providing the ministries with the assurance of the effectiveness and efficiency of the procedures for mitigating risks



## **(3.1) Improvements**

- **Almost all ministries have an oversight structure for internal accounting control attached to the Secretary General**
- **They all have a « risk map » and a « ministerial action plan » regarding implementation of internal control**

## (3.2)...and limitations

- However, this first stage in deployment has yet to reach the right balance :
  - Some risk maps are not comprehensive
  - Involvement of locally based services is not yet sufficient
- A new environment (State reform : general review of public policies + CHORUS : new IT system) creates new operational risks

- **Several processes exhibit shortcomings when thoroughly scrutinized by means of tests (identifying government intervention expenses ; pay process ; inventory ; processes under the remit of the financial ministries etc.)**



- **A higher level of maturity is needed**
  - **Need to develop reliable tools for ongoing assessments of internal control**
  - **Proactive evaluation approach needs a stabilized methodology that focuses on 3 areas (organisation, documentation, traceability -audit trail)**
  - **Overall lack of supervision of accounting risk mitigation schemes**



- **Inadequate internal control over commitment accounting (accrued expenses are not exhaustive)**
- **The number of internal audit departments whose work the Court is able to use pursuant to the provisions of international audit standard ISA 610 remains limited.**

## (4) What lessons ?

- The Court's focus on internal control has been an interesting experiment, not totally conclusive since a qualification has been maintained since 2006
- This question is very clearly linked to the accountability question
- Internal control is not only accounting internal control but concerns all areas of the public management





## **(5) And now ?**

- **Recommendation in our public report on the implementation of the Constitutional Bylaw on Budget Acts : redefine the place of financial control by learning lessons from the failure of internal control in the ministries to develop evenly ?**
- **An achievement whose results are to be analysed this year : law passed in June 2011 creates a new Committee in charge of standardizing all internal audit structures and methods**

# To go further

- [http://www.ccomptes.fr/fr/CC/documents/RCE/Audit\\_court\\_opinion\\_state\\_annual\\_financial\\_report\\_2010\\_english.pdf](http://www.ccomptes.fr/fr/CC/documents/RCE/Audit_court_opinion_state_annual_financial_report_2010_english.pdf)
- [http://www.performance-publique.budget.gouv.fr/fileadmin/medias/documents/comptabilite/referentiel\\_controle\\_interne.pdf](http://www.performance-publique.budget.gouv.fr/fileadmin/medias/documents/comptabilite/referentiel_controle_interne.pdf)



**AUDIT COURT  
OPINION ON THE  
STATE'S ANNUAL  
FINANCIAL REPORT  
2010**



■ [http://www.ccomptes.fr/fr/CC/documents/SynthesesEN/Summary\\_implementation\\_constitutional\\_bylaw\\_on\\_budget Acts.pdf](http://www.ccomptes.fr/fr/CC/documents/SynthesesEN/Summary_implementation_constitutional_bylaw_on_budget Acts.pdf)

COUR DES COMPTES

summary  
of the **Public Thematic Report**

November 2011

**The implementation of the  
Constitutional Bylaw  
on Budget Acts: a report  
to provide new perspectives**

■ **Important Notice**

This summary is designed to aid the understanding and use of the Cour des Comptes report. Only the report itself is binding on the Cour des Comptes. The responses of the administrations concerned are published in the wake of the report.



**Thank you very much  
for your attention**