

**LOCAL AUTHORITIES'
ACCOUNTING AND
FINANCIAL REPORTING**

**Trends and Techniques
in a Multinational Perspective**

**edited by
Stefano Pozzoli**

FrancoAngeli

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PREFACE

The idea of this book stems from the experience I gained as Public Member of the International Public Sector Accounting Standards Board – as clearly shown by the background of many of the authors who have contributed to this volume.

The chance to be part of an international board, where views can be exchanged, has made me realize the importance of understanding the cultural and technical rationale underlying the approaches and feelings of those who come from other countries. Also, in this perspective, it is crucial to identify the measures adopted to tackle the problems which regularly prove to be approximately the same all over the world.

It appears also clear that neglecting what happens abroad – whatever the field in which you operate – is not only an unjustified sign of conceit, but also an option which can hardly lead to a tangible improvement of the competitive ability of a country

Even carrying out deep systemic reform, there is the strong temptation to disregard what happens in the rest of the world, or even worse, to accept a simplified and trivial version of those which is, doing so, misleading.

Unfortunately, the attitude to underplay the importance of other countries' experiences – or to judge them wrongly – is often even stronger, when the public administration issues are tackled.

The idea of sovereignty makes us cherish the illusion of being independent from international comparisons and not in need of exchange of opinions: therefore, there is the growing tendency to isolate ourselves from the rest of the world and build autonomous – though not necessarily effective - models.

In the specific case of local authorities, pretexts are offered by a multi-faceted context due to the fact that in every country the very nature of local authorities is different, both in legal terms and in terms of tasks concretely performed. In Italy, for example, pursuant to Constitutional provisions, Municipalities are autonomous bodies, independent from the other government entities, whereas this is not the case in Canada, where the individual States recognize them and, theoretically, can also dissolve them. In the United States – at least in certain contexts – health and education fall within the Municipalities' competence, whereas this is not the case in France and the United Kingdom.

However, the fact of drawing inspiration from other countries also implies to start from the in-depth knowledge of the context where some reforms originated; the way in which they have been implemented; the cultural environment which has entailed – and possibly allowed – specific choices and which probably do not make them applicable to a country which has different structural characteristics and a different history.

This book only intends to provide a contribution to comprehend and investigate more in depth the experience of some countries, which can be addressed as significant benchmark in the field of local authorities' accounting and reporting.

Hence, this volume provides readers with the choice of interpreting not only the accounting models of some European countries, but also of some Asian countries, such as Japan, and of the Anglo-Saxon world, such as the United States and Canada.

The aim is to provide a critical analysis of case studies from a professional viewpoint – as shown by the background of many authors, who mainly come from the accounting profession (not only from IPASB, but also from the national Standard Setters).

It is a critical – albeit not systematic – analysis: no considerations are made and no summary is attempted. It is up to readers to form their opinion about the similarities and especially the main differences of approach, which can be found also in countries which are apparently close to ours from the cultural viewpoint.

Hence, the choice of presenting all contributions according to a plan which is probably not rational – namely dividing them into two parts (European countries and non-European countries) and listing them within these two groups, on the basis of their size in terms of population.

I hope we have carried out a useful investigation and credit must be given to all those who have been patient enough to cooperate in the drafting of this book.

I wish to express my deep-felt thanks to all of them.

Florence, March 2008

Stefano Pozzoli

PART I

THE EUROPEAN SCENE

1. ACCOUNTING PRACTICE IN FRENCH LOCAL AUTHORITIES

Louis Renouard

1. Characteristics of French Local Authorities

Local government comprises several categories or levels of local authority (A). It is no simple matter to sum up each one's specific roles and responsibilities since many of them overlap with those of other authorities and notably with those of the state (B). Resources and budgets of regional and local authorities represent a fairly large share of total public expenditure (C). But in overall terms their share in the public deficit is insignificant and their debts are modest. It is true however that 40% of their income is from the state, which is in serious deficit (D).

1.1. Local administration levels

The national territory is divided into communes, departments and regions. The terms department and region are to be taken in two different ways. On the one hand they refer to administrative divisions through which the state operates, the state being represented by a prefect and deconcentrated administration in each of the 100 departments and the 26 regions. On the other hand they denote the areas for which local authorities are responsible and are referred to by the same name.

1.1.1. The main categories of local government

The French constitution lists the three main local government levels (in the constitution the term *collectivités locales* has been replaced with *collectivités territoriales*):

- communes, which are particularly numerous (36,783 of which 874 have more than 10,000 inhabitants) and are often combined to form intercommunalities or EPCIs (établissements publics de coopération intercommunale);
- departments (100);
- regions (26).

None of these categories of local authority exercises any control over the others.

The main decisions affecting local communities, notably budgetary, are adopted by deliberative assemblies made up of elected representatives (the municipal council for the communes, the general council for the departments and the regional council for the regions). They are administered by an elected executive (the mayor for the communes, the chairman of the general council for the departments, and the chairman of the regional council for the regions).

1.1.2. Monitoring of local authorities

The prefect, representing the state, monitors the work of the local authorities to ensure compliance with regulations.

The prefect monitors the deliberative assemblies' decisions on the budgets in collaboration with the regional chambers of accounts, which are independent bodies.

The regional chambers of accounts were established in 1982. They are the main bodies responsible for monitoring local finances. They are *completely independent of the local authorities*. Their members are magistrates whose independence is guaranteed by their statute and whose numbers vary depending on the importance of the region (nearly 50 for the Île-de-France chamber, fewer than 10 for the Franche-Comté or Limousin chambers). As to their roles, see below.

1.1.3. Hospitals do not come under local authorities

Public hospitals, although their boards of governors are chaired by the mayors of the communes in which they are sited, are administered by directors appointed by the state and financed from social security funds.

1.2. *Main areas of responsibility*

1.2.1. Overview

Two points:

- a) There is no text setting forth the precise areas of responsibility of communes, departments and regions. Responsibilities are defined in general or specific terms by the law.
- b) Responsibility for many important matters is *shared* between the state and the local authorities and/or between different types of local authority. This is true notably of public *education*: the state pays the bulk of the salaries and the communes, departments and regions pay everyday operation and investment costs. Responsibility for *social policy* is also shared between the state, the departments and the communes. *Cultural* policy (libraries, museums, etc.), is the responsibility of the communes, the departments and the regions and *support for companies* is mainly a matter for the state and the regions; however, the regulations provide for complementary action by departments and communes. Ports come under the state, the department or the region depending on the category they fall into.

1.2.2. The communes and EPCIs

All communes have exactly the same responsibilities, whatever their size. In addition to their traditional role (registering births, marriages and deaths, organising elections, exercising policing powers), the communes provide social facilities (day nurseries, old people's homes), supplementing those made available by the departments.