

The "*fichier d'écriture comptable*": why is it still on the agenda in 2017?



The “fichier d’écriture comptable” (FEC) Art L 47A1 of the French book of tax procedures

Article L47A1 of the French book of tax procedures came out in 2003 and established the obligation for businesses to provide an extract from their accounting system in the form of a standardised file of accounting entries that can be used directly by the tax authorities.

Beyond the “basic” ease of transmission represented by the dematerialisation of the general ledger, in our eyes, the reform of this article constitutes an essential tool for improving tax administration practices going forward.

The general ledger, which is demanded right at the start of the audit and which can be examined using computer techniques, is effectively the ideal starting point from which to establish an audit strategy.

1. Journal code for the accounting entry
2. Journal heading for the accounting entry
3. The number of the accounting entry using a continuous sequence
4. The date on which the accounting entry was recorded
5. The account number
6. The account heading, in accordance with the French chart of accounts classification
7. The sub-ledger account number (blank if not used)
8. The sub-ledger account heading (blank if not used)
9. The reference of the supporting document
10. The date of the supporting document
11. The description of the accounting entry
12. The amount of the debit
13. The amount of the credit
14. Matching of the accounting entry (blank if not used)
15. Matching date (blank if not used)
16. Date of validation of the accounting entry
17. The amount in currency (blank if not used)
18. Currency identifier (blank if not used)
19. Establishment code



Technologically, what can be done with this data?

Although they are simple in terms of technological design, the tests that can be carried out on these data make it possible to explore the enterprise's day-to-day accounting practices:

- Framework for tax returns,
- Analysis of journal entry headings,
- Analysis of accounting procedures,
- Recalculation of tax rates
- Analysis of sequentiality, etc.

Numerous tests requiring the intervention of IT experts and the use of a specific procedure are now accessible to all auditors.

These analyses, prior to the actual audit itself, allow the auditor to save precious time.

Before mastering the procedure and the management of relations during the audit, this reform poses technical questions on accounting and computing aspects.

What are the remaining difficulties 3 years later?

Of course, all the software companies have proposed developments to make it possible to produce the standard accounting entry file (FEC).

Experience has shown that few difficulties are to be found at the level of the computerisation of the file. Moreover, the administration has made a dedicated tool available to enterprises which enables them to carry out the format verifications easily (<http://www.economie.gouv.fr/dgfip/outil-test-des-fichiers-des-ecritures-comptables-fec>).

There are, however, a wide variety of situations in which the problems encountered are much more complex and impossible to solve with a simple data extractor.

Management software (ERP) which is not widespread in France

This purely French regulation requires major adaptations to management systems in order to be able to produce a file which complies with very specific accounting standards. Many software companies which do not have a large client base in France have therefore decided not to adapt their software to provide a standard solution.

The 'specific' developments offered to their clients are generally very costly and highly complex to set in place. Efficient external solutions exist.

ERP which is not supported

International groups of all sizes sometimes take many years to stabilise their information systems. Once their ERP has been deployed, they choose not to adopt the developments and upgrades offered by the software companies. For reasons which are both technological and commercial, software publishers commit to supporting the latest versions of their software only.

These groups have to set in place an autonomous extraction set-up. Efficient external solutions exist, which also provide the capacity to check rapid series of FEC files and create any supplements which may be necessary.

Several ERP within the same group or even the same legal structure

The accounting organisation set in place by groups has difficulty adapting to developments in strategy and changes in scope. It is quite common to see groups which rely on hybrid systems resulting from successive mergers and migrations.

It is important to be able to establish unique FEC files for each company and to have tight control over their content in order to be totally sure of mastering this tricky task.



Permanent establishments

Permanent establishments of foreign companies operating in France must also produce a FEC file. Here again, the multinational context does not guarantee the company's capacity to carry out the processing.

Using standard extraction processes also raises questions regarding scope. The company could end up transmitting data that does not concern the French tax administration.

Merger, change of perimeter, migration, change in systems

Although high-risk operations for the stability of accounting processes, entities joining and leaving groups of companies and the abandoning of old information systems do not result in any exemption from having to produce FEC files.

At the time of a merger, for example, you even have to produce 3:

- Entity A, from the beginning of the fiscal year to the date of the merger
- Entity B, from the beginning of the fiscal year to the date of the merger
- Entity (A+B), from the date of the merger until the end of the fiscal year

During migration to a new system, it is of course necessary to keep the FEC files issued by the old system. It is also necessary to ensure that you keep all the elementary data which may be required to support the accounting operations carried out and declarations filed (financial statement, tax return):

- Supplier data,
- Customer data,
- Orders,
- Delivery slips,
- Invoices,
- Stock management,
- Fixed asset management, etc.

An archiving plan for the system at the end of its life could be highly appreciable in the event of a digitalised tax audit.

Integration of sub-ledger accounting

What is an accounting entry?

Like 'classical theatre', accounting must respect the rule of the 3 unities:

- Unity of time,
- Unity of place,
- Unity of action

An accounting entry must transcribe, on a day-by-day basis, one or more events grouped together into the same operation, carried out in one place.

Each accounting entry must be linked to an element of supporting documentation indicating on a unit by unit basis the detail of the events grouped together.

This accounting entry is labelled in accordance with the French chart of accounts.

What is a sub-ledger accounting entry?

Fields 7 and 8 of the FEC file refer to the sub-ledger account. Sub-ledger accounts are made up of journals dedicated to categories of operations (accounts receivable, accounts payable, etc.). A summary-level entry is monthly recorded in the company's general ledger.

The FEC file must contain the detailed sub-set of transactions.

If certain entries are booked in sub-ledgers, it is therefore necessary to retrieve the detail (transaction-specific information) in the FEC file and neutralise the corresponding summary-level entry.

Sub-ledger accounting may be kept on different systems to the general accounts. Gathering together heterogenous data may become technically difficult, meaning that the associated level of control must be further tightened.

Accounting kept using a foreign accounting system and/or foreign language

Most multinational groups (including French groups) rapidly find it necessary to harmonise their management practices to guarantee consistency and operating fluidity.



This harmonisation is often accompanied by “Global” tools, common reference systems or even shared service centres which take charge of transversal operations for all the group’s companies and profit centres.

The choice of a “global” chart of accounts (often inspired by the “accounting” roots of the business: USGAAP, IFRS, French chart of accounts, etc.) is interpreted by the French tax authorities as a management decision which cannot release the business from its obligations in terms of complying with French regulations.

The French tax administration wants the accounts of the companies that it audits to be kept according to French standards and in the French language.

The IT and accounting organisation of the multinational groups does not generally make this possible.

During the first years of application, the administration was tolerant of the account mapping strategies set in place by the groups and patiently agreed to allow for certain differences in correspondence. Accounting entries labelled in English are also beginning to scare the French auditors a little less.

However, the end of this tolerance has been announced for audits of fiscal years beginning after 2015/01/01.

Partial extraction of the FEC file as part of an extended VAT audit

When the notice of assessment stipulates that the audited period is extended for a given tax, other than income tax, and for which the legal filing date has expired, the taxpayer is obliged to present its obligatory accounting documents relating to this period in dematerialised form, even if the fiscal year has not yet ended.

The FEC file thus handed over must contain all the entries and not only those relating to VAT, because it concerns all the accounting journal entries for each fiscal year or period indicated in the notice of assessment.

Most ERP systems do not make it possible to carry out such extractions in a controlled and reliable way.

Specifically, what are the risks in the field

The sanctions

In the context of audits for which the notice of assessment was sent since August 10, 2014, failure to present the accounts as required leads to the application of a fine of €5,000 or, in the event of reassessment and if the amount is higher, 10% of the amounts to be paid by the taxpayer (French tax code art. [1729 D](#)). These penalties are due per company and per fiscal year concerned.

Impact on the tax audit

As we have seen above, the simple remission of a fundamental file for the management of the company may turn out to be quite an obstacle course.

The auditor’s incomprehension will be reinforced by the fact that this request is made at the beginning of the procedure.

- What to think about a company that takes 5 months to extract its accounts?
- Did it only have one set of accounts?
- Did it have two sets of accounts (official and unofficial)?
- Is it acting in bad faith to slow down the audit?

One thing is certain, none of these remarks will leave a good impression!

And tomorrow?

There is no doubt that FEC file is the beginning of a process to better exploit data analysis potential within the framework of a tax audit.

Beyond the elementary accounting tests, we are beginning to see the development of a dedicated approach by sector of activity with questioning that is more focused on the actual professions of the enterprises audited.

As the auditors become more at ease, the creativity of the audits improves...

To assist you, choose a team with experience of several hundred FEC files across all sectors of activity.

Why is France the only country to instigate such obligations?

France is not the only country to set in place this type of obligation. Portugal, Austria, Sweden, Lithuania, Poland and to a different extent Germany have all set mechanisms in place which sometimes go much further in terms of content. Certain also go further by transforming these files into reporting obligations.

These countries generally rely on work carried out by the OECD to create a universal Standard Auditing File for Tax (SAF-T).

Most of the remarks made above in relation to the French FEC file are transposable to SAF-T.

Our tools make it possible to manage, on a common platform, the FEC and the derivatives of SAF-T.

Our recommendations

There are two recommendations necessary to satisfy this obligation effectively.

Unite

As we have seen, there are at least 3 inevitable dimensions.

- The accounting part: the actual object of the audit. The file cannot be remitted without being checked by the competent services.
- The IT part: in many cases, it is not a simple question of extraction. The complete file may stem from several different systems with or without interface between them.
- The tax part: of course, the internal tax department and its advice is necessary: how are the tax returns calculated? What strategy is adopted for the audit?

Everyone is going to work in synergy. Sometimes this is a first!

Anticipate

The FEC file must be handed over during the first weeks of the audit.

It is unrealistic to think it possible to:

- Express needs
- Carry out the extraction
- Verify the extraction
- Manage errors or inconsistencies
- Prepare the file
- Pass it on to the auditor

In less than one month.

We recommend preparing the file progressively, at each closing of the accounts.

The management of the first 3 fiscal years must make it possible to build up an efficient operating method and put it to the test.

The use of a tax archiving mechanism would be a major bonus here.

Our achievements

Audit your FEC files and give you independence

For whom?

Group specialising in the construction and installation of hoisting machines

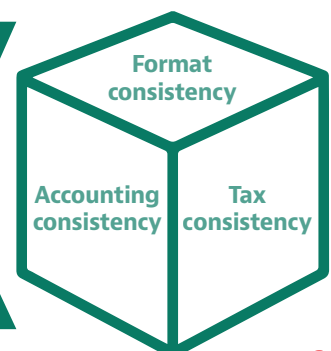
Why?

The risks inherent to the FEC file are less linked to the form than the content of the file. In many respects, FEC file constitutes the diary of the company.

The techniques used by the tax authorities will enable them progressively to evaluate the accounting entries globally and exhaustively and to set in place "profession-oriented" audit procedures.

It is crucial to guarantee the consistency of the FEC file on the basis of 3 aspects:

- Respecting the format,
- Accounting consistency: does the file respect the requirements set by French accounting regulations? What will a well-equipped auditor learn from the file?
- Tax consistency: does the file match the elements declared to the tax authorities?





We have developed around forty generic tests which can be adapted to every context.

Our client entrusted us with:

- The audit of 10 FEC files stemming from three different software platforms.
- The industrialisation of the audits within a platform set up at the heart of its IS in order to audit the 40 group companies for 3 fiscal years and test the files to be produced in the future.

How?

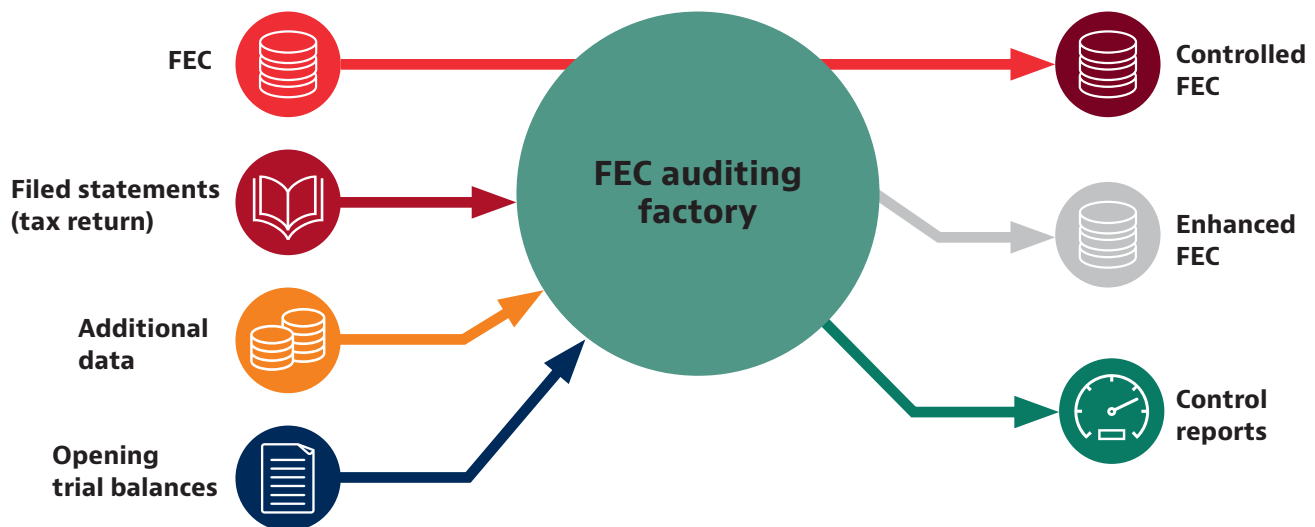
Once the FEC regulation became stabilised, the “one-off” nature of the audit offers appeared to be a major limitation.

Groups are often made up of multiple companies and the hazards of company life mean that the risk of non-compliance may arise at any time during the account processing.

Regularly calling in external auditors appeared to be fastidious and costly to our client. We therefore developed a tool to carry out all the tests that we perform within the framework of FEC diagnosis operations.

This tool works in an ACL environment. The acquisition of licences from the software company is necessary.

The “FEC auditing factory” makes it possible, autonomously, to test and retest all FEC files produced by the group, for all fiscal years.



It also makes it possible, on the basis of the FEC files, to produce 2 essential deliverables:

- Control reports and a report of potential anomalies
 - o The consistency tests carried out produce summary tables making it possible to reconcile the FEC data with accounting and tax return elements.
 - o The anomaly search tests send ‘alerts’ for accounting entries which may raise questions (numbering sequences, reconciliation items, dates, etc.)
- An enhanced FEC (as an option)
 - o Our experience shows that the FEC represents a vision that is quite different from the everyday management of a large enterprise. In order to be usable by operational staff, the FEC data often need to be completed using information that is not required by the regulation (and therefore does not need to be transmitted to the administration!).
 - o We therefore complete and improve our client’s FEC: alternative chart of accounts, the notion of cost centre, geographical or business oriented subdivisions, etc.





Producing FEC files in a crisis situation

For whom?

Collaborative platform, leader on its market

Why?

In the context of a tax audit, the auditor asked for the FEC file to be provided. The data necessary for the preparation of the file came from an ORACLE EBS environment, partially kept in USGAAP.

Several acquisitions were carried out over the preceding months and all the systems had not been brought into line.

Despite the mobilisation of the enterprise's IT resources, the multiple attempts to produce the FEC file failed leading to rejection by the tax authorities.

How?

Using our own machines, we mobilised our experts very rapidly in order to prepare a first working document. By adopting an agile approach, we were able to manage all the specificities of this case in less than 3 weeks.

What are the benefits?

Our client was at last able to supply a file that met the requirements of the tax administration. Once this step had been completed, the tax audit was able to go ahead in a climate of peaceful relations.

The intervention of our experts was:

- Highly efficient, as our teams have excellent knowledge of the issues and difficulties which may arise.
- Very rapid to implement, as we have predefined tools at our disposal as a result of previous experience.
- Highly optimised financially: 100% expertise, 100% value-added.

Producing FEC files from foreign chart of accounts

For whom?

A world food-processing industry leader established in France.

Why?

Our client, a world leader, deployed a "CORE MODEL" SAP in all its subsidiaries. Advanced customisation work was carried out on this SAP matrix.

Of course, there was not just one chart of accounts at the level of the Group. Based on the American model, the chart of accounts did not comply with the requirements of the French chart of accounts.

These specificities made it absolutely impossible to rely on the traditional methods of preparing FEC files with DART or other extractors.

Aware of the permanent nature of the FEC obligation, our client wanted to have a tool which it could use independently, without having to call in an external service company each time.

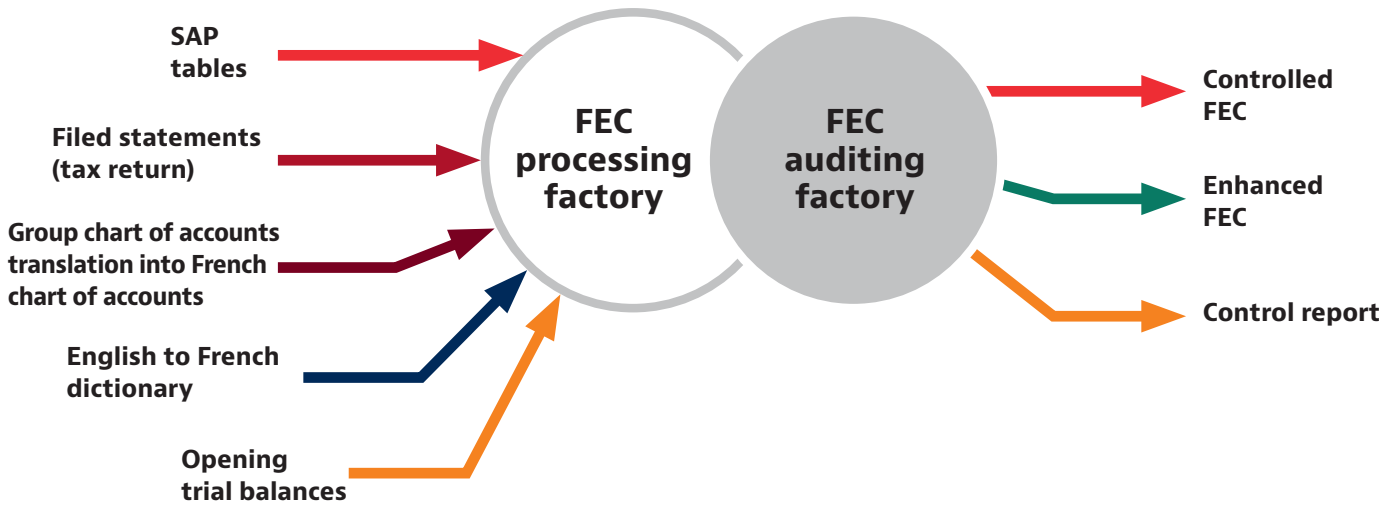
How?

With the help of the ACL tool, we developed and customised a veritable 'FEC processing factory' making it possible to compile the FEC file and to check it.

The principal functionalities are:

- Collection of the data available in SAP using a certified connector
- Transcoding of the group chart of accounts towards the French chart of accounts
- Integration of carryforwards
- Analysis and translation of the comments from English to French
- Preparation of the FEC file
- Audit of the file
- Production of a "FEC-Bis" file making it possible to link up the USGAAP accounts and the FEC file instantly.





What are the benefits?

A fully autonomous solution that does not require any heavy involvement on the part of the Group IT department or require an external service provider.

At the end of our assignment, our client was capable of producing its FEC files itself and auditing them. The client had mastered the entire production process.

By following a short additional training course, the tax and accounting staff can now complete the list of control procedures themselves by drafting the scripts relating to the company's specific areas of risk.

Integrating sub-ledger accounting with very high volumes

For whom?

Major French player in the insurance business

Why?

The regulation leaves a wide margin for interpretation on the need to integrate sub-ledger accounting elements in the FEC file.

Whether at the initiative of our clients or following sometimes insistent requests from the auditor, we have integrated the sub-ledger accounting of our clients into their FEC files on numerous occasions.

A key player on the insurance market, our client produces a FEC file resulting from several different lines of business: property and casualty, personal insurance, life insurance...

Data is fed into the company's general ledger by 8 business applications which act as subsidiary ledgers with an overall customer account rationale.

The supplier sub-ledger account is included in the ORACLE AP module.

How?

A 'basic' FEC file is produced in an ORACLE environment.

On the basis of the ACL technology, we identified the aggregated entries and were able to ensure that they came from the 8 subsidiary ledgers.

Requests for extraction were formalised with each of the project managers concerned in order to have detailed entries for the year concerned.

We developed scripts making it possible to replace each summary-level entry by detailed entries (at transaction level).

These scripts were installed on an ACL server at our client's premises. JDBC links were established with the remitting applications, thus facilitating the collection of raw data.





What are the benefits?

Our client now has an annual FEC file with more than 1.400.000.000 lines corresponding to the most rigorous reading of the regulation.

Our intervention made it possible to identify accounting centralisation errors that had not previously been detected.

The client is now fully autonomous in producing this monumental file.

Building a worldwide platform to manage FEC and SAT-T obligations

For whom?

One of the major luxury goods actors present in over 80 countries

Why?

Present throughout the world, our client is exposed to multiple local tax regulations.

Many of the tax authorities now rely on computerised audit techniques.

After having entrusted us with the preparation of its FEC file in France, our client was required to produce an SAF-T in Poland.

Wishing to rationalise its tools, our client asked us to develop the SAT-F component on the same ACL platform.

How?

As there was already an ACL infrastructure and connector to access the SAP data directly, it was easy for us to constitute packages of data to send to the Polish authorities.

ACL's XML file functionalities enabled us to set in place a chain which satisfied the regulations in terms of form.

Most of the test procedures which can be carried out by the administration were able to be implemented in the tool.

What are the benefits?

Beyond the question of compliance, the company now has a genuine, continuous audit tool which makes it possible to identify and deal with anomalies upstream.

Beyond the requirements of the Polish authorities, the control procedures applied are valid for most industrialised countries and enabled the entire group to progress in terms of level of internal control and anticipation of tax issues.



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