



Audit revenue in the « budgetary control » applied to French local authority



Plan

■ 1st part : Presentation

- Budgetary control
- Audit methodology of a budgetary control and its follow-up

■ 2nd part : Practical case

- Income in a local authority budget and their audit
- Review of a municipality unbalanced budget



First part

- The administrative audit of budgets (budgetary control) is one of the three missions assigned by the law to French regional audit chambers
- Like the other missions, the budgetary control extends to all local authorities (municipalities, counties (departements), regions) and their public agencies

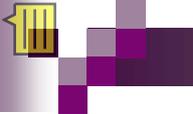
- **A new mission which finds its origin, like the chambers, in the decentralization laws in 1982**
 - The budgetary control goes with the local authority free administration
 - The chamber, called in by the Prefect (central government representative in the county) mainly when a budget has been voted unbalanced, suggests corrective measures through a detailed advice notice.



Methodology of review income in a budgetary control (general principles)

■ First step :

- Check the true and faithfulness of the budget or the account :
 - Certainty of the principle and the amount of the income
 - Revenues are recorded in the accounts on an accrual basis
- Implementation, if necessary, of adjustments
- Conclusion of the justification of the request



Methodology of review income in a budgetary control (general principles)

■ Second step :

- Suggest corrective measures in order to balance the budget, or the account, covering of one year or, if not possible, several years



PRACTICAL CASE



Simplified view of a territorial authority budget

(2007 accounts, global territorial authorities, billion €)

Operating section	Capital section
Expenditure (a).....133	Expenditure (c).....68
Income (b).....162	Income (d).....62
including	including
Taxes.....94	Savings.....29
Central gov. allocations.....48	Grants.....15
Others.....20	Debt.....18
Savings = (a)-(b).....29	Financial need = (c)-(d)..6

Income of the operating section

	Review....	Means of recovery
Taxes		
Direct taxes	Easy	Yes
Indirect taxes	Rather difficult	Yes
Government allocations		
Taxes compensations	Easy	No
Allocations	Easy	No
Others	Rather difficult	No

Income of the capital section

	Review....	Means of recovery
No allocated income		
Government allocations	Easy	No
VAT compensation	Easy	No
Assets sales	Easy	Yes
Operation grants	Difficult	Yes
Debts	Easy	Yes



View of the municipality budget sent to the chamber by the Prefect

Operating section	Capital section
Expenditure.....100	Expenditure.....40
Income.....100	including
including	Debt reimbursements.....15
Taxes.....60	Income.....62
Central gov. allocations.....30	Savings.....5
Others.....10	Grants.....15
Foreseen savings.....5	New debts.....20
Outcome.....-5	Outcome.....0



First step : the revenue audit aiming at a true and faithful budget

- 1. the true and faithfulness of the capital income and the financing of the debt annual repayment by “own resources” in order to determine the necessary level of savings

■ According to our case,

- 6 capital grants are own resources.
In order to cover the debt annual repayment of 15, the savings must be 9
- 3 capital grants are not sure and must be withdrew



Budget after correction 1

Operating section	Capital section
Expenditure.....100	Expenditure.....40
Income.....100	including
including	Debt reimbursements.....15
Taxes.....60	Income.....62
Central gov. allocations30	Savings5+4 = 9
Others.....10	Grants15-3 = 12
Foreseen savings ..5+4 = 9	New debts.....20
Outcome.....-9	Outcome.....1



First step : the revenue audit aiming at a true and faithful budget

■ 2. The true and faithfulness of the operating income :

- Global approach : consistency of the operating income compared to the previous year,
- Audit of the main resources

- Relating to our case, a provision of 7 for an important bad debt is needed

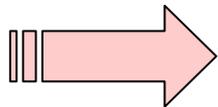


Budget after correction 2

Operating section	Capital section
Expenditure... $100+7 = 107$	Expenditure.....40
Income.....100	whose
whose	Debt reimbursements.....15
Taxes.....60	Income.....62
State allocations.....30	Savings $5+4 = 9$
Others.....10	Grants $15-3 = 12$
Foreseen savings .. $5+4 = 9$	New debts.....20
Outcome.....-16	Outcome.....1

Results of the budget audit

- The capital section is overbalanced by 1
- The operating section is in deficit by 16



The request is justified

Second step : revenue corrections in order to balance the budget

■ Principles :

- After having restored the revenue true and faithfulness, the budget balance might be reached first :
 - by the decrease of expenditure,
 - by the increase of income other than taxes
- The chamber's suggestions must be limited to the municipality own income,
- The increase of the taxes will be considered as a last resort.

Second step : revenue corrections in order to balance the budget

■ Capital income :

- Decrease grants after having eliminated capital expenditure
- Assets sales,
- Borrowing

**In our case, decrease of the new debt
by 1 to balance the capital section**

Budget after correction 3

Operating section	Capital section
Expenditure... $100+7 = 107$	Expenditure.....40
Income.....100	including
including	Debt reimbursements.....15
Taxes.....60	Income.....62
Central gov. allocations.....30	Savings $5+4 = 9$
Others.....10	Grants $15-3 = 12$
Foreseen savings .. $5+4 = 9$	New debts $20-1 = 19$
Outcome.....-16	Outcome.....0

Second step : revenue corrections in order to balance the budget

■ Operating income :

- Public services users rates,
- taxes,
- recommendations

■ In our case, balance could be reached by :

- Decrease income by 8
- Increase rates by 2 (« others »)
- At last, increase taxes by 6



Budget after correction 4

Operating section

Expenditure. $100+7-8 = 99$

Income $100+8 = 108$

including

Taxes..... $60+6 = 66$

Central gov. allocations.....30

Others..... $10+2 = 12$

Foreseen savings .. $5+4 = 9$

Outcome.....**0**

Capital section

Expenditure.....40

including

Debt reimbursements.....15

Income.....**62**

Savings $5+4 = 9$

Grants $15-3 = 12$

New debts $20-1 = 19$

Outcome.....0



The chamber's advice notice

- 1 the request is agreed
- 2 the request is justified
- 3 the chamber's proposed budget is balanced with the following corrections....
- 4 the local council is invited to deliberate on the chamber's advice