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PLANNING A RISK BASED AUDIT:

REGIONAL AUDIT CHAMBERS IN FRANCE

Summary

In a French regional audit chamber planning the audit takes place in two successive stages (if we understand the term in the broad sense):

- the annual audit programme, i e, the definition of those local authorities and bodies to be audited throughout the year, mentioning the aspects to be audited and pointing out the audit intensity;
- the audit plan of the local authority or body. This document is prepared at the beginning of the audit.

In these two stages of the audit planning there are risks, although of different scale:

- in the stage of selection of local authorities and bodies to submit to audit (annual audit programme), risk is not determinant
- in the stage of planning the audit of a local authority or body, there is clearly more risk

I. The limited significance of risk in the annual audit programme of a regional audit chamber

Regional audit chambers are bound to determine an annual audit programme by provisions in force. This programme is determined by applying several criteria successively.

1. Firstly: establish a list of local authorities and bodies

The audit scope of regional audit chambers includes a large number of local authorities, groupings thereof and specialised public establishments (hospitals, schools etc.).

It is usual to perform an audit of the same body every four years.

In the list of audits to carry out during the year it is tried that bodies to be audited are grouped geographically (for instance, audit on the same year an association of municipal corporations and each municipality that forms part of the association). This grouping of audits becomes more and more necessary with the creation in France of a level of “strong” intermunicipal structures.

The annual audit programme of a regional audit chamber also includes those bodies which can be audited optionally: such are satellite bodies of a local authority governed by private

law but which receive public financial aid. As these bodies do not have a public accountant, financial and legal risks are greater than in those bodies ruled by public accounting standards. These risks often are the determinant factor at the time of deciding if a body is included or not in the audit programme.

2. Secondly: aspects to be audited

The audit approach which considers the aspects or subjects to be audited does not stand in contradiction to the approach by bodies.

The aspects mentioned here are not the classic ones which are usually included in the audit of a local authority; it is a matter of concrete aspects in relation to a specific audit.

The French National Court of Audit and the regional audit chambers carry out surveys at national level in order to appraise a public policy; sometimes they just carry out comparative audits following a sole procedure. In these surveys are examined specific subjects in a sufficient number of local authorities and bodies from different regions before drawing conclusions at national level.

3. Thirdly: choosing an audit method (audit intensity)

Audit bodies adapt their means to their tasks. It is important to choose well the intensity of an audit. Regional audit chambers can choose between two audit methods which they define themselves: a 'minimal' audit procedure and an in-depth procedure. These two audit methods are very different from each other: a 'minimal' procedure is much shorter in time than an in-depth one.

The choice of how deep the review should be is made first of all according to the budgets at stake, the financial significance of those bodies regional audit chambers must or could audit can vary significantly. Afterwards the choice is made according to the existing financial and legal risks.

The audit method ('minimal' or 'in-depth') also serves to suit the tasks a regional audit chamber has to perform to the means which are at its disposal.

II. The importance of risk in the audit plan used by a regional audit chamber when auditing a local authority

1. The review

An audit plan is only defined for those audits which are carried out in-depth. The audit plan includes several aspects: initial contact with the audited body, a first analysis of the financial situation, cartography of the 'territorial group' around the body subject to audit: when it is about a local authority, semi-public corporations whose capital belongs mainly to the public body, associations which receive significant subsidies from the body, groupings of local authorities of which the body is part.

The review is also based on external information which may be considered revealing of possible risks. This information also includes information of a criminal nature.

The aim of this initial review is to determine the financial and legal risks which affect a body subject to audit.

2. The drawing up of a local authority's audit plan

The audit plan includes some compulsory items, among which are the analysis of the decisions adopted as a consequence of comments and recommendations expressed during the previous audit.

This risk analysis, which is fundamental, directs the audit towards one aspect more than to the other:

- financial risks which come from the semi-public corporations the authority holds shares of and which have been granted a financial guarantee
- legal risks arising from contentious proceedings already on course or threatening to arise and which could end up in major compensations to be charged to a local authority which has not been prudent or has been badly advised in the management of contracts passed with providers.

Conclusion

To sum up, risk analysis does not have the same importance at every stage of the audit process, but as a whole it is quite important when planning the audits to be performed by regional audit chambers. However, this place could be even more important. The trend in regional audit chambers is to look for room for manoeuvre: not to devote too much time to undoubtedly mandatory audits but in which risks seem quite limited.

This is, without any doubt, a common difficulty for all public sector audit institutions: standard procedures lead to useful audits, which, however, need their time; risk analysis – or an approach focussed on aspects or subjects – may lead to an opposite choice: to abandon audits which until then were considered mandatory for legal reasons (the appliance of acts and regulations or professional rules) and devote more time and effort to those fields where risks are considered to be high.

The approach of regional audit chambers is, after all, similar to a common method used in the world of audit, since the local public sector where regional audit chambers exercise their powers is considered as a whole and not as a collection of numerous bodies. As it is not feasible to carry out a full scope audit, it is a matter of applying a risk approach: local authorities with limited budgets only are submitted to weak audits whereas important bodies are submitted to in-depth audits according to an audit plan which is based on the risks which have been detected. It is a very common approach.