Navigating the Audit Landscape of Public Private Partnerships (PPP)

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New Approaches in the Delivery of Public Services and the Development of the PPP Model

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I. Concept of Public Private Partnership

- What is PPP?
- Why is PPP a necessity?
- What PPP is Not: Other Types of Private Involvement
- History of PPP
- Advantages and Disadvantages of PPP

What is PPP?

- There is no one clear definition of PPPs.
- Public-Private Partnership (PPP) is a cooperative arrangement between the public sector (government) and the private sector (businesses or non-profit organizations) to jointly undertake a project or provide a service.
- In a PPP, both parties pool their resources, expertise and capabilities to achieve common goals and deliver public infrastructure, services or facilities.
- PPP is defined as the implementation of investments and services based on a contractual agreement, through the sharing of costs, risks and returns between the public and private sectors.

What is PPP?

- The key features of a PPP include;
- **i) Sharing Responsibilities**; share responsibilities in project planning, financing, design, construction, operation and maintenance.
- **ii) Sharing Risk**; associated with the project, such as financial, operational and construction risks, are shared between Public and Private partners.
- **iii) Long term partnership**; PPSs often involve long term contracts
- **iv) Value for Money**; PPPs aim to optimize the allocation of resources by leveraging private sector efficiencies and expertise while ensuring public interests and value for money.

What is PPP?

- **v) Innovation and Expertise**; The private sector brings innovation, technical know-how, and specialized skills to enhance project delivery and operational efficiency.
- **vi) Revenue Generation**; In certain cases, the private sector partner may generate revenue through user fees, tolls, or other forms of payment, either partially or wholly, to recover their investment and operational costs.

In generally, PPPs offer a collaborative approach to address infrastructure development, service delivery, and public needs by leveraging the strengths and expertise of both the public and private sectors.

Why is PPP a necessity?

- Developments in public administration
- Downsizing the state
- Opening more space for the private sector
- Increased cooperation between the public and private sectors.

Why is PPP a necessity?

Need for finance, technology, experince and knowledge in these areas is high and public sector is not …

But private sector is characterized by speed, dynamism and innovation,

Governments solved the issue by combining the advantageous aspects of these two sectors.

What PPP is Not: Other Types of Private Involvement

Governments enter into a wide range of contracts with private companies.

Some of these contract types may share some of the typical PPP characteristics-such as being long-term, output based or performance-related-but they are not PPPs as defined above.

What are those methods called?

What PPP is Not: Other Types of Private Involvement

Privatization;

Privatization is narrowly defined as the sale of the ownership of a public enterprise to private individuals and legal entities.

What PPP is Not: Other Types of Private Involvement

Concession Method;

Concession contracts are used by public authorities to deliver services or construct infrastructure.

Concessions involve a contractual arrangement between a public authority and an economic operator (the concession holder).

The latter provides services or carries out works and is remunerated by being permitted to exploit the work or service.

What PPP is Not: Other Types of Private Involvement

Management contracts;

Do not share the long-term characteristic of PPPs, the significant private capital investment, and the high level of responsibility for long-term performance brought by investment in infrastructure assets. However, they typically include similar performance indicators and requirements to PPPs.

What PPP is Not: Other Types of Private Involvement

Design-build or turnkey contracts;

Include similar output-based specifications; however, as shorter-term contracts that do not include maintenance or operation, they do not create the same long-term performance incentives as PPPs.

Design-build contracts are short-term contracts with no long-term responsibilities allocated to the private party.

What PPP is Not: Other Types of Private Involvement

Financial lease contracts;

FLCs are long-term contracts for providing public assets. However, these contracts transfer significantly less risk to the private party than PPPs because government maintains a larger proportion of risk than it normally would in a PPP. Financial lease contracts do not transfer significant responsibility for management and performance to the private party.

History of PPP

- In the 16th and 17th centuries, mainly in France and England, river beds, canal construction, lighting and mail delivery etc. were carried out by private sector organizations.
- Until the 1860s, it was common for canal and railroad projects to be carried out with the PPP.
- In the 19th century specially railroad construction and management done by the private sector.

History of PPP

Following the United Kingdom, the public-private partnership model was also implemented in the United States and France. The Suez Canal, which was supported by Said Pasha, the governor of Egypt, and whose construction was completed in 1869, is also a product of public private partnership.

History of PPP

Privatization practices, which have become widespread since the 1960s with the adoption of policies such as downsizing the state and concentrating more on mandatory service areas and making the business approach dominant in the public sector, especially under the leadership of the UK, have transformed into a new paradigm.

That paradigm includes softer relationship networks such as public-private cooperation or private sector participation since the 1990s and have become increasingly widespread.

History of PPP

- PPPs have developed worldwide with the growth of liberalisation.
- In recent years, PPP projects have played an important role in the realization of infrastructure investments in both developed and developing countries.

History of PPP

In the US, Urban regeneration projects were introduced after the 1960s.

In the UK in the 1990s, Special Finance Initiative (PFI), a new model, started to be implemented.

- In European Union; 1.913 PPP Projects, investment amount of nearly Euro 403.2 billion, 1990-2021 period (EPEC)

- In developing countries 8.807 PPP Projects, investment amount of nearly USD 2.16 trillion, 1990-2022 (World Bank PPI)

Advantages and Disadvantages of PPP

Advantages of PPP

- Distributing the financial burden (between public and private sectors)
- Reducing the burden on the public budget
- Better quality and larger scales public service delivery
- Boost to private sector economy

Advantages and Disadvantages of PPP

Advantages of PPP

- Private sector expertise and experience
- Balanced distribution of risks
- Increase in public assets at the end of the contract
- Flexibility and agility in adapting to changing conditions

Advantages and Disadvantages of PPP

Disadvantages of PPP

- Infrastructure or services provided may be more expensive
- PPP service procurement procedure is longer and more costly in comparison with traditional public procurement
- Public sector payment obligations postponed to later periods may adversely affect future public sector financial indicators.

Advantages and Disadvantages of PPP

Disadvantages of PPP

- The fact that private enterprises tend to hide important information from the public, weakens transparency. This may lead to inadequate accountability.
- Facilities taken over at the end of the contract require high maintenance costs

Advantages and Disadvantages of PPP

Disadvantages of PPP

- The aim of maximizing the profit of the private sector can cause a certain part of society not to be able to benefit from the public services offered.
- Unlike the state, private companies can go bankrupt, therefore the ultimate risk belongs to the state.

Fundamentals and Distinctive Features of the PPP Model

CONTENT

I. Types of Public Private Partnership Models

-Types of PPP

-PPP in Türkiye

II. Institutional Arrangements Required for a Successful PPP Project

-PPP Prerequisites

-A checklist for PPPs

Types of PPP Models

Build-Operate-Transfer (BOT), Build-Own-Operate-Transfer (BOOT), Build-Transfer-Operate (BTO), Build-Own-Operate (BOO)

- These PPP models are defined by the legal ownership of project assets.
- In the Build-Operate-Transfer (BOT) model, the private sector owns the project assets throughout the project period and transfers them to the public institution at the end of the contract.
- Build-Own-Operate-Transfer (BOOT) model is similar to BOT model except that the private sector owns the asset until the end of contract. In Build-Own-Operate-Transfer (BOOT) model public institution does not have early buyout option before the end of the contract period.
- BOOT is often used interchangeably with BOT.

Types of PPP Models

- Type of Asset: New infrastructure
- Payment Source: Can be either government or user pays
- Unlike BOOT and BOT models where ownership is transferred at the end of the contract, In the Build-Transfer-Operate (BTO) model, asset ownership to public institutions is transferred once construction is complete.
- Build-Own-Operate (BOO) model is similar to BOOT model, but the private sector has ownership of the asset. (The government agrees to purchase services produced during a certain period of time).

Types of PPP Models

DBFOM (Design-Build-Finance-Operate-Maintain), Design-Build-Finance-Operate (DBFO), Design-Construct-Manage-Finance (DCMF)

- These types of PPP models are defined by the functions private sector responsible for.
- As can be seen from the titles of PPP models, the private sector can design, build or rehabilitate, construct, maintain, finance, operate and/or manage.
- Type of Asset: New infrastructure
- Payment Source: Can be either government or user pays

Types of PPP Models

Rehabilitate-Operate-Transfer (ROT)

- In the PPP models described so far, “Rehabilitate” could replace “Build”, where the private sector is responsible for rehabilitating, upgrading or expanding assets.
- Type of Asset: Existing infrastructure

Types of PPP Models

Operations and Maintenance (O&M)

- According to this concept, the private sector is responsible for the operation and maintenance of the public asset.
- Operation and maintenance contracts for existing assets may be called PPPs if they are performance-based, long-term and involve significant private investment (sometimes called performance-based maintenance contracts).

Types of PPP Models

Private Finance Initiative (PFI)

- It is a long-term contract between private sector and a public institution where the private sector designs, builds, finances and operates a public asset and related services.
- In a PFI contract, the private sector is responsible for the risks associated with construction, maintenance and management, and remunerationn depends on performance.
- The United Kingdom is one of the first countries to introduce the PPP concept under the term Private Finance Initiative, or PFI.
- Design, build, finance, maintain may include some operations, but often not providing services directly to users
- Type of Asset: New infrastructure
- Payment Source: Government pays

PPP in Türkiye

Within the scope of Public-Private-Partnerships (PPP) in Türkiye;

Build-Operate,

Build-Operate-Transfer,

Build-Lease-Transfer and

Transfer of Operating Rights models are applied.

These models are defined as follows;

Build-Operate (BO) Model

- The private sector constructs and operates an asset or service according to the requirements of the public institution.
- The asset or service is not typically transferred to the public institution at the end of the operating period.
- It is used in electrical energy production in Türkiye.
- The private sector is given permission to establish and operate thermal power plants, and the public institution purchases the electricity produced.

Build-Operate-Transfer (BOT) Model

- The private sector finances, constructs, operates, and transfers the ownership of a public infrastructure project to the public institution after a specified period.
- It can be applied in many different areas such as port, highway, airport, bridge, tunnel construction, nature park and wholesale market construction.

Build-Lease-Transfer (BLT) Model

- The private sector finances, constructs, and leases a public asset or infrastructure project for a specific period.
- The public sector pays rent to the private sector every year.
- After the lease period, the asset or project is transferred to the public institution.
- This model is used in the health sector in city hospitals and health campuses in Türkiye.

Transfer of Operation Rights and Revenue Sharing Model

- The operation rights are transferred to the private sector for a certain period of time and the private sector pays a certain percentage of the generated revenue to the public institution.
- This model is not a privatization method because the ownership of the asset remains in the public sector.
- It is generally preferred in power plant facilities, airports and ports.

Economic Indicators About Türkiye

- Türkiye is the 3rd in terms of investment, 5th in terms of number of projects in Europe.

- According to the Presidency database, a total of 270 public-private partnership projects were implemented in Türkiye during the 1986-2024 period, while the total investment amount was 204 Billion USD.

- Four different PPP models are used in PPP projects carried out in Türkiye. Among these models, the most used one is Build-Operate-Transfer with 127 projects, followed by Transfer of Operating Rights with 120 projects, Build-Lease-Transfer with 18 projects and Build-Operate models with 5 projects.

Economic Indicators About Türkiye

- When looking at the sectoral distribution of investment amounts of projects carried out with the PPP model; It is seen that;
- The Airports sector ranks first with 95 Billion USD.
- Energy are in second place with 44 Billion USD.
- This is followed by the Highway sector with 33 Billion USD.
- Health projects implemented with the Build-Lease-Transfer model rank fourth with 13 Billion USD.

Economic Indicators About Türkiye

- When we look at the sectoral distribution of operating rights transfer fees, it is seen that;
- Airports rank first with 75.77 Billion USD (VAT included, September 2023 prices).
- This is followed by the energy sector with 22.74 Billion USD,
- Ports with 3.26 Billion USD and
- Marinas with 3.18 Billion USD.

Economic Indicators About Türkiye

- Average Project Size; 600 million USD.
- 70 % of the projects realised in the last 10 years.
- Türkiye is the leader among the Developing Countries.

Economic Indicators About Türkiye

Economic Indicators About Türkiye

Economic Indicators About Türkiye

Institutional arrangements required for a successful PPP project

According to UN Economic Commission for Europe, PPPs should take into account the following objectives

- Fair and transparent selection process
- Assurance of Value for Money
- Improvement of essential public services, especially for the socially disadvantaged groups and adequate training for those to be involved in the partnerships

Institutional arrangements required for a successful PPP project

- Fair incentives to all parties and fair returns to risk takers, combined with commercial success
- Sensible negotiation of disputes that assures continuation of services and prevents collapse of projects and consequent public wastes
- Enhanced security in the face of the new threats and for a general improvement in the safety of services provided under PPP arrangements.

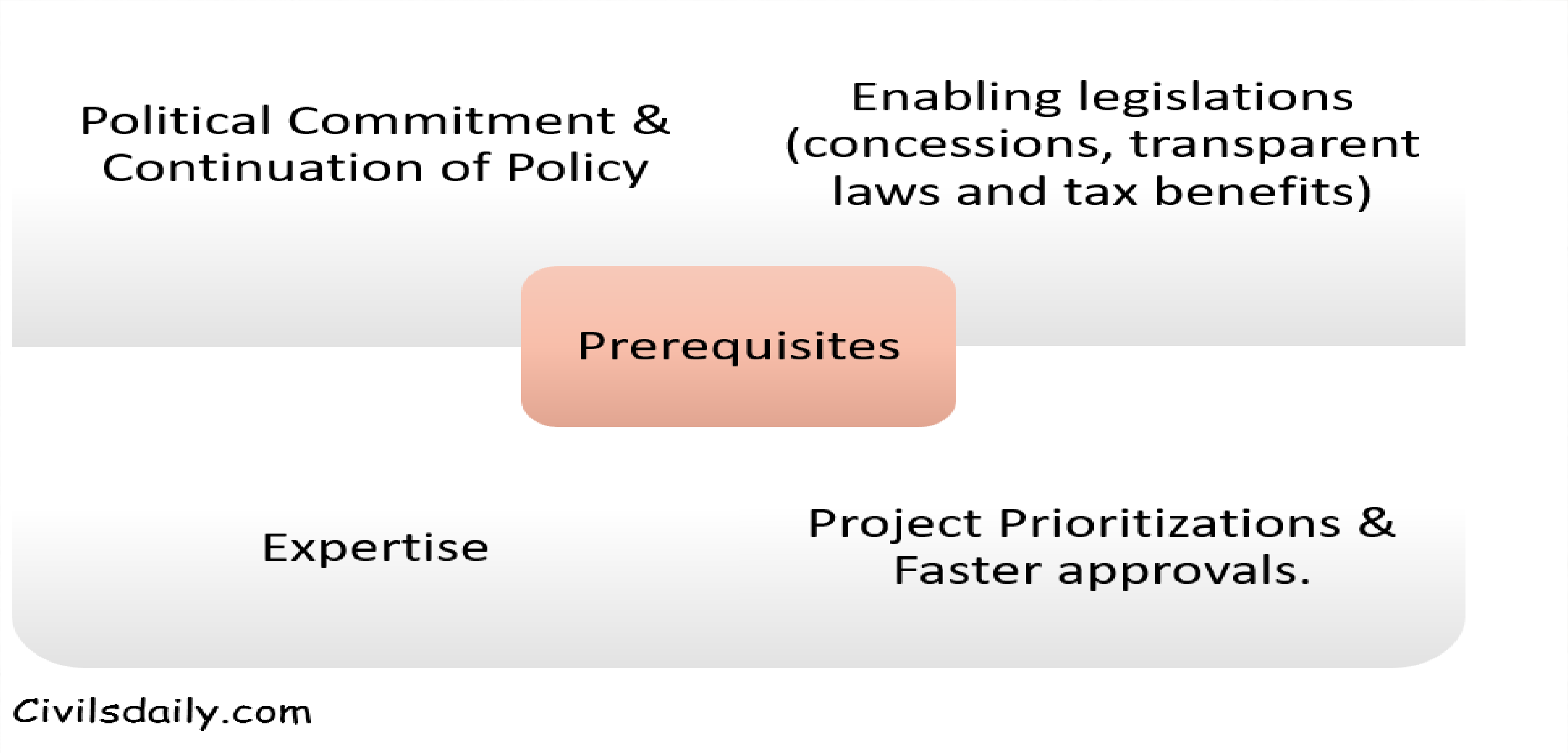
PPP Prerequisites-World Bank

- Governments need to be able to design projects with a **package of risks and incentives** that make them attractive to the private sector
- Governments need to be able to **assess the costs** to the tax-payers, often harder than traditional projects because of the long-term and often uncertain nature of government commitments
- Governments **need contract management skills** to oversee these arrangements over the life of the contracts
- Governments need **advocacy and overreach skills** to build consensus on the role of PPPs and to develop a broad programme across different sectors and levels of governments

PPP Prerequisites-World Bank

Schedule 1	Definitions and Interpretation	**Schedule 16**	Company Representative
Schedule 2	Completion Documents	**Schedule 17**	Market Testing Procedure
Schedule 3	Project Documentation Regime	**Schedule 18**	Payment Mechanism
Schedule 4	Key Technical Personnel	**Schedule 19**	Financial Model
Schedule 5	Observer of works	**Schedule 20**	Operation Term Management Plan
Schedule 6	Funders' Direct Agreement	**Schedule 21**	Insurance Requirements
Schedule 7	Land Matters	**Schedule 22**	Variation Procedure
Schedule 8	Construction Matters	**Schedule 23**	Compensation on Termination
Schedule 9	The Programme	**Schedule 24**	Handback Procedure
Schedule 10	Review Procedure	**Schedule 25**	Superficies Agreement
Schedule 11	Service Provider Collateral Agreement	**Schedule 26**	Dispute Resolution Procedure
Schedule 12	Outline Commissioning Programme	**Schedule 27**	Financial Statements
Schedule 13	Equipment	**Schedule 28**	Activity Reports
Schedule 14	Service Requirements	**Schedule 29**	Refinancing
Schedule 15	Administration Representative		

PPP Prerequisites-World Bank



Checklist for Public Private Partnership Projects

Figure 1: Approach to the PPP Checklist

POLITICS	LAW AND INSTITUTIONS	ECONOMICS AND FINANCE	EXECUTION
• Ownership • Potential political deal breakers	• Laws and regulation • Standard documents and methodologies • Internal organization • Transparency and accountability	• Business case • Fiscal issues • Financing	• Internal and external capacity for implementation • Procurement • Contract management

Checklist for Public Private Partnership Projects

Ownership

- Approved national/regional/local infrastructure plan with clear support from government?
- Does proposed project derive from these plans?
- Agreement/disagreement with stakeholders? (unions, media, CSOs, public)
- Strategic communication plan to engage with stakeholders?

Checklist for Public Private Partnership Projects

Political Deal Breakers

- Credible social and environmental impact assessment?
- Any land acquisition, resettlement or other approvals that may lead to delays?
- Will other infrastructure be ready on time?

Checklist for Public Private Partnership Projects

Laws and Regulations

- Clear PPP laws and regulations?
- Procurement law treat all bidders (including international) fairly?
- Other sector laws allowing for charging fees/tariffs?
- Simple, transparent, predictable requirements for licences and planning applications?
- Labour law sufficiently flexible?
- Are tax laws clear about PPP projects?
- International arbitration respected?
- Protection against nationalisation of project assets?
- Functioning Court system?
- Standard guidance and templates for different stages of the process?

Checklist for Public Private Partnership Projects

Internal Organisation

- PPP unit staff with appropriate skills/capacity?
- Dedicated teams for all stages of the PPP process?
- Transparent, time limited, processes for all stages of PPP process?
- Established processes for contract management?

Checklist for Public Private Partnership Projects

Transparency and Accountability

- Transparency at all stages of PPP process?
- Guidance on confidential information?
- Clear framework for audit?
- Does the SAI have the capacity and skills to conduct the audits and do they publish their reports?

Checklist for Public Private Partnership Projects

Business Case

- Clear articulation and substantiation of need for the project?
- Is there long term certainty on future requirements?
- Have lessons from previous exercises been considered?
- Are technical cost estimates in line with established national/international benchmarks?
- Are revenue estimates based on realistic assumptions?
- Has a full option appraisal been performed? Based on VFM?
- Are timelines realistic? Are they tracked?

Checklist for Public Private Partnership Projects

Fiscal Issues

- Do fiscal policies of government include focus on PPP?
- Well functioning budgetary system that allows multi-year commitments to PPP projects? And that PPPs are affordable?
- Clear process for accounting for PPP?
- Assessment of various options to minimise government support? E.g. tariff rises?

Checklist for Public Private Partnership Projects

Financing

- Long term debt instruments available?
- Are credit enhancement and risk mitigation products available?
- Mechanisms for interest rate and foreign currency hedging?
- Are all modelling assumptions clearly articulated?
- Is there a risk register? Methodology and rationale for identification, assessment and allocation of risks?

Checklist for Public Private Partnership Projects

Capacity/Procurement

- Identified project teams with required skills/capacity?
- Have transaction advisors been recruited competitively?
- Any conflicts of interest within advisory team?
- Does qualification process ensure maximum competition?
- Are parameters clear to negotiate with preferred bidder?
- Is financial bid backed by sound costs, revenue estimates?

Checklist for Public Private Partnership Projects

Contract Management

- Contract management team understand the contract? Have the required resources?
- Contract management plan to measure performance?
- Are all stakeholders being kept informed by periodic release of public information?
- At completion, has an asset inspection been carried out by an independent expert?
- Is there a plan in place for continuity of services? (or re-letting PPP contract?)

Accountability Issues Arising From PPP Projects and The Role of SAIs

CONTENT

I. Typical Risks Facing a Government Entering into a PPP Project

- Typical risks facing a government, related to PPP projects
- Identify what actions could be taken to mitigate these risks
- The role of the SAI in relation to PPP projects

Introduction

State may not achieve benefits without taking risks.

BUT – these risks should be identified, assessed and considered

SAI has a role to play in ensuring this happens

Understanding of organisational (government) risk is also useful in considering audit risks.

Risks Headings

- Clarity about partnership objectives
- Negotiating an appropriate partnership
- Protecting state interests as a minority shareholder
- Monitoring state interests in the partnership
- States exposure in the event of difficulties

Clarity about partnership objectives;

Risk 1

The state is likely to have a range of public service objectives, some of which may be competing

If it fails to identify and prioritise objectives for securing these interests, it may not identify all the realistic alternatives before deciding to enter into a partnership, and it is likely to be at a disadvantage when negotiating with potential partners.

Example - ensuring universal service across a country (including remote areas) may require investment in infrastructure, which could raise the price of services for consumers.

Action - Prepare a strategic plan setting out the public sector’s objectives for the partnership, and the possible options for balancing competing priorities

Clarity about partnership objectives;

Risk 2

- The state's need to fulfil a variety of public policy objectives may clash with the private sector's interest in profit
- **Action** - Consider how the private sector’s commercial interests might reasonably be protected.
- **Example -** incentivise each party to help the other meet their objectives

Clarity about partnership objectives;

Risk 3

- Variance between the public sector’s interests and objectives and those of potential private sector partners may jeopardise effective joint working
- **Action -** Identify the likely appeal of the project to various types of private sector partners, and consider which partner’s interests are most likely to be aligned with those of the state (e.g. not for profit)

Clarity about partnership objectives;

Risk 4

- Poor decision-making processes may result in the wrong partner being selected, or an inappropriate partnership vehicle being used for the project. PPP may be used so that the project is accounted for off balance sheet, rather than because it best achieves the state’s objectives for improved services
- **Action** - Consider a range of vehicles for the proposed partnership and select the structure which best suits the public sector’s objectives, whilst also being attractive to private partners
- Government should ensure that adequate financial reporting framework in place

Clarity about partnership objectives;

Risk 5

- The public sector may not provide sufficient leadership and incentives to its managers to encourage them to take well managed risks in order to secure viable partnerships. Furthermore, public managers may not always act in the state's best interests (due to conflicts of interests or pressure from lobby groups)
- **Action -** Performance based rewards linked to user satisfaction can be an incentive to public sector employees to take well managed risks, and to act in the public interest

Clarity about partnership objectives;

- **Risk 6**
- There may not be sufficient competition for the project. If there is only one potential partner, it is difficult for the state get a deal that is good value for money
- **Action -** Take market soundings at the feasibility stage to assess the level of private sector interest in the project

Negotiating an Appropriate Partnership

Risk 1

- Specialist financial and legal advisers may be necessary, but the public sector may become over-dependent on external advice and pay consultants more than the market rate. There is also a risk of corruption. Advisers and public employees may be bribed to favour a particular company in the procurement process, or to agree a partnership agreement that is not in the public sector's best interest
- Action-Appoint advisers after a competition, which focuses on the skills required and quality as well as cost
- Consider how the advisers can transfer knowledge and skills to public sector staff
- Set clear budgets at the outset.
- Consider linking advisers' remuneration to achievement of the public sector partner's objectives.
- Identify potential conflicts of interests and how these could be resolved e.g. through the use of Chinese walls.
- Ensure that a third party reviews the selection process and the agreed terms and conditions before the partnership is finalised

Negotiating an Appropriate Partnership

Risk 2

- Negotiating and setting up a partnership frequently involves additional public expenditure up front which can be recovered if the partnership is successful. Failure to provide for this initial expenditure can put the enterprise at risk
- **Action** - Calculate the likely costs as well as the benefits of the partnership, and establish whether costs falling on the public sector are affordable

Negotiating an Appropriate Partnership

Risk 3

- If a large percentage of the contract price is paid initially, the partner may have less incentive to deliver quickly or to a high standard. The state could also lose its money if their requirements later change
- **Action** - Link contractual payments to the achievement of milestones and the standard of services delivered

Negotiating an Appropriate Partnership

Risk 4

- Political pressure to deal only with local companies
- **Action** – Obtain legal advice on procurement requirements. Tender as widely as possible

Negotiating an Appropriate Partnership

Risk 5

- Compliance with onerous public procurement requirements puts off potential bidders
- **Action** – Good communication with potential bidders at all stages of the process

Negotiating an Appropriate Partnership

Risk 6

- Partner with poor record of service delivery is appointed.
- **Action** – Through procurement process

Negotiating an Appropriate Partnership

Risk 7

- Public sector body may not have the authority to enter into agreement or transfer assets to a private sector entity.
- **Action** – Ascertain in advance of commitment that appropriate legal authorities are in place

Negotiating an Appropriate Partnership

Risk 8

- Government may not have adequate rights over unexpected profits arising from exploitation of assets
- **Action** – Obtain independent valuation of the assets
- Ensure that issues of profit sharing are addressed in the partnership agreement
- Ensure state rights are protected if contributed assets are disposed of

Negotiating an Appropriate Partnership

Risk 9

- Once assets are transferred, public sector loses control over them. But some assets are of critical importance (e.g. transport infrastructure, energy infrastructure)
- Action – Consider leasing rather than transfer
- Consider "step-in" rights in event of major failure of service delivery

Protecting state interests as a minority shareholder

Risk 1

- Once government accepts minority stake it might be overridden by private partner
- Action – Value of having control “priced in” to contract value
- Ensure protection for minority interest regards structure, management, governance

Protecting state interests as a minority shareholder

Risk 2

- Failure to consider protections at certain % ownership thresholds

Action – Consider the rights attached to different % ownership before committment.

Protecting state interests as a minority shareholder

Risk 3

- State may lost the value of the investment
- Action – regular performance monitoring mechanisms so state can step in if required

Monitoring State Interests in Partnership

Risk 1

- Lack of financial, legal or other technical advice means that cannot effectively manage the partnership
- Action – Identify and obtain the range of skills from the outset

Monitoring State Interests in Partnership

Risk 2

- Public sector may not obtain sufficient information to provide assurance on partnership performance
- Action – Ensure that all information is identified and built into the agreement
- Agreement contains mechanisms for regular monitoring

Monitoring State Interests in Partnership

Risk 3

- Performance measurement incentives for the public sector body may have unintended consequences
- Example – Inducing managers to focus on accounting targets rather than actual performance
- Action – Develop suite of performance measures – both quantitative (cash flow) and qualitative (customer satisfaction)

Monitoring State Interests in Partnership

Risk 4

- As partnership develops disagreements on strategy or performance develop into contractual disputes
- Action – Appropriate governance and review arrangements (e.g. board representation)
- Dispute resolution agreements built into the agreement

State Exposure in Event of Difficulties

Risk 1

- Partnership becomes bankrupt or state wants to withdraw – at large cost
- Action – Risk analysis before entering partnership and make provision for them in the agreement

The role of SAI in relation to PPP projects;

- The SAI should audit and assess the PPP ex post with regards to performance, finance and compliance. It should maintain sufficient capacity to give a clear verdict on whether or not the project ultimately represented value for money, suggest possible improvements to the regulatory PPP framework, the procurement processes and make available overall lessons regarding the use of PPPs and investments. All relevant information should be made available to the SAI.

Areas of Focus for SAI

- The data, records, **analysis and the decision process** of the government department / public sector agency to prefer the PPP route to execute the project instead of undertaking it directly
- Documents and files leading to the **formulation, appraisal and approval** of the project
- The **process of identifying the private sector partner, requests for proposals, bidding and tendering process** of the contract

Areas of Focus for SAI

- **In-depth analysis of the project documents** including the shareholders' agreement, concession agreement, operation and maintenance agreement etc
- **Accounts documents**, bills, records and schedules relating to the construction, and oversight arrangements
- **Value for money** considerations and safeguarding the **public interest**

Areas of Focus for SAI

- **Operation and maintenance** of the assets, tariff / toll / user-charges collection and accounting and **revenue sharing arrangements**
- **Quality and standards of the service**, customer protection, **dispute resolution** and **asset transfer arrangements**
- **End of the project operations** including valuation of residual assets, decommissioning, dispute resolution mechanism

Auditing of PPP Projects: INTOSAI Standarts and Guidance

CONTENT

I. Relevant ISSAIs providing guidance in relation to PPP audit

- **ISSAI 5220** Guidelines on Best Practice for the Audit of Public/Private Finance and Concessions
- **ISSAI 5240** Guidelines on Best Practice for the Audit of Risk in Public/Private Partnership
- **ISSAI 1402** Audit Considerations Relating to an Entity Using a Service Organization

ISSAI 5220 – General Approach of the SAI- SAI Responsibilities

- The guidelines proposed should therefore be seen as suggestions and advice, put forward in the light of experience so far. They are not laws or set procedures which every SAI should apply in their entirety to every study. Their purpose is essentially to offer guidance to ensure that an audit of such deals follows a professional and structured approach and identifies useful lessons for future deals.

ISSAI 5220 – General Approach of the SAI- SAI Responsibilities

The SAI should identify what its **audit responsibilities** are in relation to public/private finance projects and concessions and decide how to carry these out.

- National vs Local/Regional Government
- Access rights to documents/information held by private company
- Be clear not to substitute SAI judgement into the process

ISSAI 5220 – General Approach-Acquiring the necessary skills

- The SAI should identify and secure the **core in-house skills** it needs to audit public/private finance projects and concessions, and supplement these skills with expert external support as necessary
  - Need wider range of skills than might normally be deployed in the audit of a purely public sector project
  - In particular, **external expertise** may be required on private finance. SAI may need to recruit staff, or make use of consultants, with specialist skills in the specific areas relating to the use of private finance.

ISSAI 5220 – General Approach-Involvement of the SAI

The SAI should examine the procurement of a public/private finance and concession deal **as soon as is practical after the contract is awarded** and should then consider examining the project again when it is in the operational phase and the concessionaire / contractor is delivering the contracted services

ISSAI 5220 – General Approach-Involvement of the SAI

- PPP projects typically last >10 years. This is too long if lessons are to be learned for both the project and other projects. The SAI should therefore examine public/private finance and concessions deals well before the end of the contract.
- Good stage is just after contract has been awarded
- In certain circumstances, however, and where this is constitutionally permissible, it may be necessary or desirable for the SAI to examine the deal before the contract is awarded

ISSAI 5220 – General Approach - Planning the Audit

- In planning the audit of a public/private finance and concessions contract, the SAI **should plan to cover all major aspects of the deal** that have a bearing on value for money to **identify the key parties** to the deal and, where possible, to take evidence from them, and to be alert to **identifying lessons for the future**

ISSAI 5220 – General Approach - Planning the Audit

- Public/private finance and concessions projects typically involve a wide range of third parties in addition to the public sector body. So SAI should consult with third parties to reach sound conclusions.
- Main objective should be identifying lessons to be learned for the future
- Take into account of all relevant information including third party documents and commercially sensitive information

ISSAI 5220 – Scoping the project

- Selection of the project
- Definition of project requirements
- Private sector capabilities
- Evaluation of potential benefits
- Wider policy objectives
- Selection of the most suitable form of partnership
- Innovation
- Risk assessment
- Affordability and likely value for money
- Outline business case

ISSAI 5220 – Project management

- Project team
- Market investigation
- Contractual matters
- Tender strategy
- Project timetable
- Cost and benefit comparison
- Tender list

- Specification of requirements
- Maintaining competition
- Regular reviews
- Budgets for project costs
- Appointment of advisers
- Cost management

ISSAI 5220 – Tendering

- Bidders’ proposals
- Bid assessment
- Choice of bidder

ISSAI 5220 – The Right Contract

- Changes during negotiation with winning bidder
- Achievement of objectives
- Evaluation of alternatives
- Ensuring service delivery
- Confirmation of affordability

ISSAI 5220 – The Operational Phase

- Is the asset fit for purpose?
- Service provision meets business
- The deal continues to be value for money
- The right governance and relationship structures are maintained
- A good contract management team is maintained
- Proper allocation of risk is maintained
- Accounting treatment is appropriate
- Management of the contract’s expiry

ISSAI 5240

Guidelines on Best Practice for the Audit of Risk in Public/Private Partnership

- Outlines
  - Risks with possible mitigating measures from point of view of government (discussed in previous module)
  - Risks with possible mitigating measures from point of view of SAI
  - Examples of “good/bad practice” from around the World

- The SAI faces risks relating to:

ISSAI 5240
Internal Control

Internal Control should include;

- good information and communication systems;
- adherence to specific legal and technical rules (e.g. for accounting, budgeting, data processing, public debt, human resources, and asset management);
- mechanisms to identify, evaluate, analyze and treat business risks;
- environmental impact assessments;
- audit tests to evaluate administrative process, financial and operational activities; and
- management performance indicators that are in line with the mission, vision and goals of the organisation.

Examining the process and the results;

Risk 1

- The SAI may lack the commercial expertise needed to evaluate either how well the public sector partner is protecting the state's interests or whether the public sector has taken unreasonable risks.

- **Action**

The SAI should identify its audit responsibilities and how best to carry these out, including securing access to any specialist skills needed

Examining the process and the results;

Risk 2

- In many cases the SAI may not have access rights to the partnership itself. Even when the SAI does have such rights the private sector may be reluctant to provide information due to fears over commercial confidentiality
- **Action-** The SAI can inform Parliament of restrictions to its access rights. This may encourage the public sector to make Access rights for the SAI a condition of future partnerships.
- The SAI can contact the private sector partners, to emphasise the SAI's impartiality and explain that they are interested in good practice as well as what went wrong.
- The SAI will however have access to the public sector partner and can examine and report publicly on how well the state has exercised its responsibilities.

Examining the process and the results;

Risk 3

Either due to a lack of expertise or a desire not to interfere with the commercial freedom of the partnership, the public sector may resist SAI efforts to probe how effectively the public sector partner is protecting the state’s interests, (e.g. by arguing that the SAI is inimical to commercial risk taking).

- **Action-**

The SAI should demonstrate that it supports well-managed risk taking by the state by issuing a press statement to that effect. It should focus its examinations on identifying good practice and contributing to the development of constructive guidance for decision takers.

Examining the process and the results;

Risk 4

Existing methodologies may not equip the auditor to assess the performance of new types of PPP. Benchmarking the quality of services is difficult when there are few comparable projects, and when the public sector has not made the partnership's objectives clear. This also makes it hard to judge what would be a reasonable return on investment for the private sector partner.

- **Action**

Consider re-examining long-term projects at regular intervals. These reviews should consider i) if the state's objectives are still being met and ii) whether all partners are receiving a fair return for the risks they bear

Information for benchmarking the partnership's performance could be gathered from unsuccessful bidders or comparable projects in other states.

Identifying worthwhile lessons;

Risk 1

- The SAI’s examination of the transaction may have too narrow a focus **for example:**

• It may be tempted to focus only on what went wrong.

• It may not take account of other relevant examinations or experience – this may lead to an undue burden on the partnership company if they are audited by several different public watchdogs.

Actions

• Lessons can be learned from failure as well as success, but the SAI should take care to place any failures or shortcomings in context, recognising in particular that, however well identified and well managed they are, the risks in novel forms of partnership may materialise

• The SAI should disseminate any good practice it discovers through conferences, newsletters and informal contact with other public sector bodies.

• The SAI should ascertain what other investigations and research have been carried out into similar arrangements at home and abroad, so that such work can inform its own investigation and help test

its findings.

Example: investigations by other audit offices and academic bodies

Identifying worthwhile lessons;

Risk 2

The SAI may build a model of good practice in procuring and monitoring partnerships. In applying this to the deals it is examining, the line between managerial and audit functions may become blurred, jeopardising the SAI's independence.

- **Action**

The SAI and the public entity should agree their respective roles at the outset of the audit; specifically although the SAI may make recommendations, the responsibility for implementation should remain with the audited body.

Identifying worthwhile lessons;

Risk 3

The SAI may concentrate on technical procurement issues and ignore the wider economic and social effects of PPPs, such as the risk of replacing a state monopoly with a private monopoly.

Action

The SAI should consider examining the whether the partnership met its economic and social objectives. However, the SAI should ensure that such studies do not question the merits of a Government's policy. **Example**: focus on the *implementation* of objectives rather than on what the objectives themselves should be.

Following up their work

Risk 1

The state may not implement the SAI's recommendations, leading to the same problems recurring on later deals.

- Act**ion**

Undertake follow up studies of projects they have previously reported on, or report on new partnerships in order to assess the state's response to the SAI's findings. They can then report to Parliament on whether the state has improved its operations.

ISSAI 1402

ISSAI 1402 – Audit Considerations Relating to an Entity Using a Service Organisation

- Many organisations outsource part of their business function
- Often these will have little impact on the audit
  - Cleaning
  - Security
- But sometimes these arrangements might relate to the audit of financial statements
  - Payroll
  - Help Desk
  - Information System

ISSAI 1402

- Service Organisation
- ***"A third-party organization*** *(or segment of a third-party organization) that provides* ***services to user entities*** *that are part of those entities'* ***information systems relevant to financial reporting****"*

- User entity
- An entity that uses a service organization and whose financial statements are being audited.

(ISSAI 1402 ISA 402)

ISSAI 1402

- The objectives of a financial audit in the public sector are often broader than expressing an opinion
- The audit mandate, or obligations for public sector entities may result in additional objectives.
- These additional objectives may include audit and reporting responsibilities,
- However, even where there are no such additional objectives, there may be general public expectations in regard to public sector auditors’ reporting of non-compliance with authorities or reporting on the effectiveness of internal control.
- Therefore, when an entity uses a service organization, public sector auditors keep such expectations in mind and alert to risks of noncompliance with authorities or a lack of effective internal control.

ISSAI 1402-Objective of the User Auditor

The objectives of the user auditor, when the user entity uses the services of a service organization, are:

(a) To obtain an understanding of the nature and significance of the services provided by the service organization and their effect on the user entity's internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement; and

(b) To design and perform audit procedures responsive to those risks.

Obtaining an Understanding of the Services Provided by a Service Organization, Including Internal Control

When obtaining an understanding of the user entity in accordance with ISA 3151, the user auditor shall obtain an understanding of how a user entity uses the services of a service organization in the user entity's operations, including:

(a) The nature of the services provided by the service organization and the significance of those services to the user entity, including the effect on the user entity's internal control;

(b) The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organization;

(c) The degree of interaction between the activities of the service organization and those of the user entity;

(d) The nature of the relationship between the user entity and the service organization, including the relevant contractual terms for the activities undertaken by the service organization.

Limitation on the scope of the audit exists when;

- -The user auditor is unable to obtain a sufficient understanding of the services provided by the service organization and does not have a basis for the identification and assessment of the risks of material misstatement;
- -A user auditor's risk assessment includes an expectation that controls at the service organization are operating effectively and the user auditor is unable to obtain sufficient appropriate audit evidence about the operating effectiveness of these controls; or
- -Sufficient appropriate audit evidence is only available from records held at the service organization, and the user auditor is unable to obtain direct access to these records.

Modified Audit Opinion

User auditor's conclusion, whether the possible effects on the financial statements are material or pervasive affects auditor's opinion

Nature of matter giving rise to the modification	*Material but not pervasive*	*Material and pervasive*
Annual accounts are materially misstated, or underlying transactions do not comply, in all material respects, with the legal and regulatory framework	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence on which to base the opinion	Qualified opinion	Disclaimer of opinion

Main Approaches in Executing an Audit Each Stage of the PPP Process

CONTENT

- Mandate, scope and objectives of a PPP audit
- Factors to be considered by SAI in considering the overall annual audit plan in relation to PPP
- Main factors to be considered when planning and executing a PPP audit

Mandate, scope and objectives of a PPP audit

Objectives

- The basic objective is to **provide unbiased, objective assessment** of whether public resources are **responsibly and effectively managed** to achieve the intended results.
- Auditors should help the government organizations **achieve accountability and integrity, improve operations,** and instil confidence among citizens and stakeholders.
- Audit, thus, supports the governance responsibilities of **oversight, insight,** and **foresight**.

Mandate, scope and objectives of a PPP audit

Oversight addresses whether government entities are doing what they are supposed to do and serves to detect and deter public corruption.

Insight assists decision makers by providing an independent assessment of government programmes, policies, operations and results.

Foresight identifies trends and emerging challenges

Mandate, scope and objectives of a PPP audit

Objectives

The aim is to cover **all aspects of the project contracting and execution,** but without impacting the freedom and innovations built into the arrangement

As in the case of audit of government departments and entities, the **relevance of regularity and compliance audit is still important**

However, the focus of PPP audit should also be **on contract audit, validity of total project cost, economy and efficiency** of operations of the entity as seen from the public participant's point of view and most of all on **achieving the objectives** (results) of the partnership rather than on how the private sector partner secures goods and services for the project

Mandate, scope and objectives of a PPP audit

Objectives

An important factor is **to ensure the value for money aspects.**

The purpose of the audit would be **to provide a reasonable assurance** to all stakeholders that the PPP arrangement **yielded value for money** and that **public interests protected.**

Mandate, scope and objectives of a PPP audit

Scope

- **Audit of PPPs might cover the following aspects:**
  - The data, records, **analysis and the decision process** of the government department/agency to prefer the PPP route instead of undertaking it directly.
  - Documents and files leading to the **formulation, appraisal and approval** of the project.
  - The process of **identifying the private sector partner, requests for proposals, bidding and tendering process**.
  - **In-depth analysis of the project documents** including all agreements, total project cost, financing arrangements, justification for the viability gap funding, contract period etc.

Mandate, scope and objectives of a PPP audit

- **Accounts documents**, bills, records and schedules relating to the construction, and oversight arrangements.
- **Value for money** considerations and safeguarding the **public interest.**
- **Operation and maintenance** of the assets, tariff / toll / user-charges collection and accounting and **revenue sharing arrangements**, escrow accounts.
- **Quality and standards of the service**, customer protection, **dispute resolution** and **asset transfer arrangements** etc.
- **End of the project operations** including valuation of residual assets, decommissioning, dispute resolution mechanism, etc.

Mandate, scope and objectives of a PPP audit

Scope

- The scope also include verification of the PPP arrangement **to ensure that the public sector agency has effectively put in place a sound system** to oversee the **efficiency and competence of the project** implementation including:
  - construction
  - quality management
  - compliance with contractual conditions
  - integrity of the provision of the targeted public service strictly in terms of the established norms and contract condition

Mandate, scope and objectives of a PPP audit

Access to Records

- Key question is what type of documents to be reviewed by the auditor
- Since the majority stakeholder in terms of financing, construction, operation and maintenance of the project would be the private sector partner, (and since these and associated risks would stand transferred to it), the question will have significant relevance.
- This is also closely related to the issue of “audit evidence”, which refers to data, information and documents relied upon to arrive at audit findings and conclusions

Mandate, scope and objectives of a PPP audit

Typical Documents Required

Documents regarding the project formulation, appraisal and approval, available with the ministry/promoting agency

- Documentation to show decision made to adopt PPP route was fair and reasonable and was taken after consideration of all alternatives
- Other documentation

Mandate, scope and objectives of a PPP audit

Typical Documents Required

- Data and documents relating to the contract documents and concession award originated by and available with the public sector partner
  - Documents relating to tender procedures, award of tenders, tender conditions, process
  - Appointment of external experts e.g. engineer to monitor construction and value assets

Mandate, scope and objectives of a PPP audit

Typical Documents Required

Data and documents given by the Private Sector Partner to the Public body available from them

- Normally as mandated in the contract
- Could include
  - Design and construction details
  - Specifications and variations
  - Reports showing returns on concessions v projections
  - Escrow account details and periodic reporting

Mandate, scope and objectives of a PPP audit

Typical Documents Required

- Reports submitted by independent experts (engineers, auditors etc)
  - Documents give good insight into construction, operation and maintenance of project.
  - Used to verify compliance with the contract

Factors to be considered by SAI in considering the overall annual audit plan in relation to PPP

Information on PPP Projects

- Potential issue of SAIs getting timely information on PPP projects
- However, often knowledge is obtained through standard financial and compliance audits
- Governments also typically have websites for PPP projects
- Useful source is also media coverage
- Possible for a central unit responsible for identifying and gathering PPP information

Factors to be considered by SAI in considering the overall annual audit plan in relation to PPP

Selection of PPP projects for audit

- Driven by a selection of **risk** factors
- The extent and value of the shareholding/participation of the government in the PPP unit, value of assets transferred, total project cost
- Government guarantees and other state support elements provided in the contracts
- The nature of the concession granted as per the contract, estimated value of concession / cost recovery, revenue sharing formula and their soundness, method of fixation of the tariff or the toll as may be, the period of the concession and provision for renewals

Factors to be considered by SAI in considering the overall annual audit plan in relation to PPP

- The nature and criticality of the service to be provided by the PPP venture and its impact on the public at large
- Media coverage identifying potential issues with a PPP contract
- Results from financial/compliance audits
- Timing of possible audit intervention (e.g. before contract signing, before re-tendering of contract)

Selection of PPP projects for audit

- Two possible inhibiting factors
  - The overall shortage of qualified and trained staff
  - The need to train these staff in PPP audit to equip them with required skills
- By their nature PPP projects are of a very long nature – overall planning needs to consider possible periodic audit interventions over the lifetime of the project
- Focus needs to be on effecting future PPP arrangements in a positive way
  - Possible at early stages to improve individual PPPs
  - Possible at late stages to improve re-tendering of individual PPPs
  - Most importantly, to improve PPP arrangements for other potential future projects

Main factors to be considered when planning and executing a PPP audit

Pre-Planning

- Engagement Letter
  - Audit Mandate expressed
  - Clearly specify the audit objectives
  - Access to records?
  - Reports to be issued

Pre-Planning

- Team competency assessment
  - PPP experience
  - Other external experts required?
  - Team competency assessment
- Ethical Declarations
  - Consider also independence issues with any private partner

Legislative Environment

- Understand the legislative Environment
  - Mandate for audit/reporting/records
  - PPP specific laws
  - Procurement laws
  - Any sector specific laws (e.g. laws around road tolls for PPP motorway)

Knowledge of the Audited Body

- Organisational structure (particular focus on PPP/investment units)
- Strategies/Plans (e.g. infrastructure or development plan)
- Budgets/Financial Reports
- Site Visits
- Media
- Internal Audit Reports
- Reports of other Oversight Bodies
- Should also include some initial knowledge on PPP private partner

Preliminary Analytical Review

- Some initial comparative analysis if possible
- Standard Budget v Actual and Current Period v Prior Period can still be useful
- Possible to conduct some initial benchmarking (e.g. Comparing Cost/Bed across 25 similar health PPP projects or ROI across similar projects)
- Purpose to improve understanding of entity and to help identify potential audit risks

Assessing Materiality

- Financial materiality threshold still relevant
- Material by nature – including how people might be affected if there is a problem in that area
- For example – Where a hospital PPP includes services that directly affect the public e.g. cleaning, security – these *might* be considered more material than other services such as providing patient food
- Audit focus should be on the “more material” PPP projects
- And potentially on the “more material” areas of individual PPP projects

Audit Risk

- Based on results of audit planning, work should be focussed on higher risk areas
- For each of the highest audit risks identified an appropriate audit response (audit work) should be determined

Audit Plan

- Detail of audit work will depend on
  - Audit Planning
  - Type of PPP to be audited
- But will likely include some or all of:
  - Detailed scrutiny of project documents starting from the conceptual stage to the formulation and approval stage
  - Verifying the legal and contractual obligations arising from the several contracts and agreements entered into between the parties
  - Review of financial modelling to test the feasibility and justifications for the grant of concessions
  - Assessment of the transparency and integrity of the bidding process.

Audit Plan

- Financial audit to verify the disclosures in the financial statements
- Limited audit of the construction and engineering to verify quality
- Quality test, where necessary, to ensure the adherence to specifications and compliance with standards
- Engaging experts to test aspects of quality and standards, if required
- Survey to test the accuracy of demands and revenue collections against projections
- Customer satisfaction level analysis through sampling techniques
- To check the actual revenue generation and sharing
- To ensure safeguarding the value of public money

Main Issues to be Considered in the Auditing of PPP Projects and Some Suggestions

CONTENT

- Main approaches in executing an audit at each stage of the PPP process
  - ✓Project Formulation and Approval
  - ✓Audit of Risk Allocation
  - ✓Audit of Bidding and Evaluation
  - ✓Audit of Construction of the Project
  - ✓Audit of Operation Phase
- Reporting of PPP Audits
- ISSAI 100

Main Approaches in Executing an Audit
Project Formulation and Approval

- Does the strategic plan identify the need and justification for the project, in accordance with a long term plan?
- Is the project justified on the basis of the demand projection? Did the feasibility study consider alternatives?
- Has the feasibility study estimated the demand projections realistically?
- Are output specifications clearly and unambiguously spelt out?

Main Approaches in Executing an Audit
Project Formulation and Approval

- Do the cost projections include all aspects of construction (such as service roads, toll plazas) and all other capital expenditures correctly?
- Does the expected cash flow justify the total capital cost?
- How was the pattern of state funding worked out? Are these reliable and as per the norms?
- Were the established procedures for project approval correctly followed?

Main Approaches in Executing an Audit
Audit of Risk Allocation

- Does the Concession Agreement identify the project risks and shift them to parties in a balanced manner?
- Who is entrusted with the financing risk? Who bears the total project cost risks?
- What are the guarantees and assurances granted by the government / public sector partner? Are these well defined and quantifiable? Are the contingent liabilities arising from such assurances transparent and limited?
- Are the conditions, subject to which they could be invoked, realistic and specific? Are there clear and acceptable substitution clauses to face such eventualities?

Main Approaches in Executing an Audit
Audit of Risk Allocation

- Who bears the political and economic risks like change of government policy or a sudden economic downturn? Reasonable?
- What are the revenue risks identified in the Agreement? E.g. How is the traffic and revenue volume assessed?
- Is the system proposed for surveying the volume of demand reliable and cost-effective? Is there a clause in case the traffic volume and the corresponding revenue fall short of the projections or exceed the projections?
- What is the extent of the risk of the private partner failing in his obligations? Are the clauses adequate to meet such events?

Main Approaches in Executing an Audit
Audit of Bidding and Evaluation

- Did the department give adequate publicity to the proposal to generate widespread interest among all prospective bidders?
- While inviting bids, were all required details and information about the PPP project made available to the likely participants?
- Were the prequalification prescribed for the bidders reasonable?
- Were the short-listed bidders financially and technically qualified? Did they provide adequate proof for their capability and experience?

Main Approaches in Executing an Audit
Audit of Bidding and Evaluation

- Did the department/agency advise the bidders about the guarantees and assurances which it would offer to financing agencies, if required?
- Was the evaluation of the bids and proposals carried out based on well established criteria?
- Was the contract awarded to the bidder who offered the best terms in respect of lowest VGF/Annuity, highest revenue sharing etc.? Or technical appraisal?

Main Approaches in Executing an Audit
Audit of Construction of the Project

- Did the public partner fulfil all conditions which as per contract were necessary for the private partner to start the construction on time?
- If there was any delay in the start up of construction, what were the attributed reasons? If there was delay on account of the private partner, was the penalty clause in the Agreement invoked?
- Were the Independent Engineer /Auditor appointed on time? Were clear terms and directions issued to them for efficient monitoring of the construction activities? Is the monitoring system in practice satisfactory?

Main Approaches in Executing an Audit
Audit of Construction of the Project

- Were milestones for construction (stage-wise) laid down in the Agreement achieved? If there were delays, did the Independent Engineer bring them to notice in time?
- Was penalty as per the Agreement levied on the private partner, if there were delays?
- Did the Independent Engineer certify at every stage as to the quality of construction and adherence to specifications?
- Was the project completed on schedule? If there was delay, analyze impact on cost, revenue and public interest. Penalty?

Main Approaches in Executing an Audit
Audit of Construction of the Project

- Did the Independent Engineer carry out the required quality tests before giving the ‘completion certificate’? Were the test results satisfactory?
- If outside experts have been engaged to test the quality and specifications of the project construction, analyze their findings

Main Approaches in Executing an Audit
Audit of Operation Phase

- Is the concession fee subject to annual increase in proportion with the increasing traffic?
- Are, for example, toll plazas / toll booths constructed at requisite entry and exit points to avoid leakage of revenue?
- How is traffic measured?
- Is the categorization of vehicles and toll rates fixed correctly and as per rules?
- What is the formula for indexing the user charges in line with inflation? Is it appropriate?

Main Approaches in Executing an Audit
Audit of Operation Phase

- Has the concessionaire carried out annual or periodical traffic surveys and census to check the volume and increases in traffic and revenue? Do the public body verify these surveys and ensure accuracy?
- Has the public sector partner carried out sample traffic / user survey on its own and reconciled with the returns submitted by the concessionaire?
- Regular maintenance carried out as per agreement?
- Is the concessionaire remitting the concession fee to the public sector authority on regular basis?
- Is there a system to ensure the correct accounting and remittance of all revenues due as per the contract?

Reporting of PPP Audits

- Why is Reporting Important
- To communicate the results of the audit to stakeholders to facilitate follow-up and corrective actions (ISSAI 100)
- Driver of accountability if reporting is timely, reliable and properly actioned by Government
- The main basis on which the effectiveness and reputation of the SAI will be judged

Report - Basics

- Reports should be… (ISSAI 100)
  - easy to understand
  - free from vagueness or ambiguity
  - complete
  - objective and fair
  - supported by sufficient and appropriate audit evidence
  - findings are put into perspective and context

Reporting

- The major findings arising from the audit should be presented at the **exit meeting**
- Care must be taken to support all audit findings with **sufficient and relevant audit evidence**
- The findings must be carefully drafted to **bring out full facts, evidence supporting the findings and conclusions and the arguments leading to the findings** so that the public sector partner could provide its response without seeking further clarifications
- Further, the SAI’s audits should not focus on narrow considerations on what went wrong; but must disseminate the **good practices** noted during the audit scrutiny for the information of all concerned

Reporting

- Adequate opportunities must be provided to the partners of the PPP to **respond to the audit findings**, and their responses should be included
- It will be a good approach **to link the audit findings in line with the established objectives** of the audit
- The **complex nature of PPP and the fact that PPP aims at innovations** through technological and managerial excellence should be kept in view
- The auditor **should not comment on policy directly**, but the impact of the policy on the project development and management and on the user community may be highlighted in appropriate cases, with supporting evidence

Recommendations

- Recommendations should be **specific and precise and to the point**.
- The effort should be to report on the **lessons learnt rather than fault findings**. The fact is that there is very little scope for amendments to the contract once they are signed and are in operation, even if the auditors point out omissions and deficiencies, unless they are patent violations to the terms of the agreements or erroneous interpretations or management failures.
- Nevertheless, the audit findings will bring out the deficiencies for **future guidance** as “lessons learnt”, apart from helping to **make the officials who processed the agreements accountable**.

Recommendations

- They should also be **helpful for the public sector partners to negotiate for better terms** in implementation of the agreements depending on the nature of such findings
- It will be advisable to carry out a review of the **audit findings and recommendations by comparing with the audit objectives** established at the beginning as part of the audit plans, to ensure that these have been adequately met
- At some point in the future, audit recommendations **should be followed up** – to help encourage implementation and to report progress to other stakeholders (e.g. parliament, citizens)

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Thank you