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Role of Supreme Auditing Institutions

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Supreme audit entities, such as courts of accounts and top audit offices, are an important link in the chain of accountability for public expenditure decisions. They provide independent reviews of government finances and performance to parliaments and the public. The International Organization of Supreme Audit Institutions (INTOSAI) provides an online list of its member audit entities.

The mandate of supreme audit entities varies by jurisdiction, but often includes two types of audit:

- Regularity audits, which can include auditing the financial statements of government entities and of government as a whole, and auditing decision-making processes for compliance and probity
- Performance, or value for money audits—reviewing the government's effectiveness and efficiency

Other entities may play a similar role—for example, government procurement agencies may be responsible for checking that procurement processes have been followed, as does the Contractor General in Jamaica.

Supreme audit entities can also play a role in PPP programs. In some jurisdictions, audit entities must sign off on PPP contracts before they can be implemented. Audit entities may then need to consider PPP commitments and processes as part of regular audits of contracting authorities and of the government as a whole. Audit entities may also conduct performance audits of PPP projects, or review the value for money of the program as a whole.

This section describes each of these elements of auditing PPP programs. Audit institutions performing these roles can help improve PPP program governance. However, to be effective in doing so—rather than simply introducing delays, or saddling PPP programs with requirements that are not appropriate for the specific needs of PPP—audit entities often need training and support. INTOSAI, supported by the World Bank and by several Courts of Audits, delivers training activities for auditors, and produced a series of manuals on PPPs, e.g. (INTOSAI 2007).

For further examples of how PPP supreme auditing works in practice, see the articles on PPP Audits in Portugal, and Hungary's audit experience with PPPs, in the **IMF publication on Public Investment and PPPs** (Schwartz et al. 2008, Chapters 17 and 18).

Audit Entity Access to PPP Company Information

While the authority of supreme audit entities vary, it typically extends only to government agencies and entities wholly or majority-owned by government. Some supreme audit entities therefore do not have the right or responsibility to audit PPP companies. Nonetheless, the private company often holds a lot of relevant information. Lack of clarity on the access of the audit entity to information held by the private party, and needed for effective auditing, has the potential to create conflict.

The **Public Auditing Guidelines for PPPs** issued by the Comptroller and Auditor General of India (CAG 2009) discuss this issue in Section III: *Scope and Objectives of PPP Audit*. The guidelines suggest

that access rights for the CAG in carrying out PPP projects may need to be defined in the public audit statute. In the meantime, the guidelines note that the audit entity is likely only to have access to information held by the contracting authority given its contract monitoring role (CAG 2009, Section 3, 29–38). In the United Kingdom, this type of access is provided through mechanisms in the PPP contract itself.

INTOSAI has published **guidelines for audit PPP projects**, which note that the audit entity must be clear about its access rights to the private company associated with the PPP (INTOSAI 2007, Section 1, Guideline 1).

Regularity auditing for PPPs

When carrying out regularity audits of contracting authorities, audit entities may need to check that PPP commitments are appropriately reflected in accounts, and that PPP processes have been followed.

For example, the National Treasury of South Africa's ***PPP Manual*** (ZA 2004a, Module 7) describes how the scope of the Auditor General's annual regularity audits applies to PPPs. This includes:

- Checking compliance—the Auditor General is required to check that the requirements of PPP Regulations have been met, for example, that the appropriate treasury approvals were sought and granted.
- Checking financial reporting—the Auditor General must also check the financial implication of the PPP for the institution. This includes checking that information on PPPs in *notes to the financial accounts* is correct, and that commitments to PPPs have been accounted for appropriately. For more on accounting requirements for PPPs, see Fiscal Accounting and Reporting for PPPs.

According to the guidelines, the Auditor General in South Africa may also carry out forensic audits (should the regular audits raise any suspicion of fraud or corruption), or performance audits, as described further in the following section.

Performance auditing of PPP projects

Auditing agencies may also carry out performance, or value for money audits, of particular PPP projects. **INTOSAI published guidelines for auditing PPP projects** in 2007 (INTOSAI 2007) with the aim to help audit entities carry out thorough performance audits of PPP projects, leading to recommendations for improved performance, and the spread of good practice.

INTOSAI guidelines recommend that the audit office review a PPP project soon after procurement and carry out further reviews over the project life cycle. The guidelines recommend that the review cover all major aspects of the deal that have a bearing on value for money. They provide guidance for reviewing how the PPP was identified, how the transaction process was managed, the tender process adopted, how the contract was finalized, and ongoing management of the PPP contract.

Auditors and other similar bodies may review particular projects where there is concern over whether processes have been appropriately followed, or whether the project is providing value for money.

The following are examples of PPP project performance audits:

- In the State of New South Wales, Australia, the **Auditor-General audited the Cross City Tunnel through Sydney** (NSW 2006). The 2006 report included an analysis of the process in which the PPP contract was awarded, how the contracted was amended, and whether the costs of the project to

citizens were justified. The project was criticized for its high tolls, lower-than-expected levels of traffic, and the lack of transparency in the amendment of the initial contract. The Auditor-General provided opinions on each of these issues based on the analysis.
- The franchises awarded for the tram and train system in the city of Melbourne ran into financial difficulties, as described in Example of a Thinly-Capitalized PPP. Because of the concerns this raised for the resulting value for money, the government committed to carrying out an ex-post value for money audit of the concessions and renegotiations. The report, published in 2005, focused on the effectiveness of the responsible agency, transparency of the process, proper risk allocation of the project, the development of public sector benchmarks, and adequate monitoring systems.

Auditing the PPP program

In some countries with well-developed PPP programs, audit entities have undertaken value for money reviews of the PPP program as a whole. For example, in the UK, audit entities have compared PPPs and traditionally-procured public projects to assess whether and how PPPs provide value for money, and feed back into PPP decision-making.

In 2011, the National Audit Office published a **review of the PFI program and other large procurement projects** and provided key lessons from the UK's experience (NAO 2011). The NAO assessed various aspects of the program, including value for money, project preparation and implementation, and accountability. Based on this analysis, the NAO offered recommendations for future improvements to the PFI program. The findings were discussed in Third Party Risk Mitigation and Credit Enhancement.

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