PPP Audit: A Contribution to Societal Wellbeing

As the stakes in Public Private Partnerships (PPP) are getting higher and higher combined with the urge to reap maximum benefits and profits, it is seen that certain malpractices have also started creeping in the process by vested interests. So it is becoming indispensible to assure quality, standards of service, and viable developments through these arrangements, keeping cost considerations on the forefront. Audit is the only tool which acts as deterrent against wrong doings. The most important factor that is considered to conduct the audit of PPP projects, is to ensure the value for money aspects of transactions involved. The main purpose of the audit, and based on which the scope could be defined, would thus be to provide a reasonable assurance to all stakeholders including the government, legislatures, and the public, that the PPP arrangement subjected to the audit has yielded value for money and that public interests have been adequately protected. Government as well as private sector organisations are depending on IT applications for internal operations and for other purposes. While automated systems provide advantages over manual, they also present the risk of fraud and misstatements. So it is very necessary to conduct proper PPP audit with automated approach & applications. Read on to know more…

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Responsibility for providing of public services and infrastructure like transport, power, urban infrastructure, tourism and railways has been the exclusive domain of the Government. However, because of increasing population pressures, urbanisation requirements, advancement, modernisation, other developmental trends and needs, the government's ability to adequately address the public needs through traditional means has been severely constrained. If government wants to channelise rapid economic development and sustained growth in the nation, there is a need to create durable and high quality infrastructure supported well by technological innovation, skilled workforce and excellent project management. It is always difficult

for government to bring all these elements together as and when required. This has made Government's across the world to find a reasonable solution to this problem, with the help of private sector to further public investments and provide public services through Public Private Partnerships.

There is wide difference with regard to understanding amongst stakeholders as to what involves a Public Private Partnership (PPP). Some believe and contend that PPP is when there is a project of public benefit being channelised through private investment, while others contend that PPPs include all forms of interactions between the public sector and the private sector, from consultations or policy dialogue and collaboration, to private provision of assets and services. Usually, the basic and primary feature of a PPP is that, it is a contract or an arrangement between a government organisation and a private organisation which involves provision of public infrastructure, or public services through the private sector, with substantial risk transfer to meet government or social needs, and rewarding / remunerating the private sector based on outputs, appear to be the common elements used in defining PPPs across countries.

Public Private Partnerships normally result from the joining hands of public and private sector entities, each with its own set of prescriptions and goals, to give momentum to overall development for the benefit of the community. The basic intention behind encouragement of PPP in various arenas, is to use the capabilities of the private sector, to complete projects of utmost infrastructural developments on time and to budget for the welfare of the community, without having to compromise or dilute the social motive and giving reasonable benefits to private partner. In most of PPP projects, the public sector retains its responsibility to provide goods and services to the public at large, at affordable rates, without compromising on quality and standards of service. Both the partners, public and private, are able to reap the maximum benefits out of this arrangement by allowing balanced sharing of risks and benefits, transparency and accountability, in all transactions relating to the award and management of the contract.

PPP audit itself is a very critical process which involves checking and covering wide areas and aspects to finally draw a conclusion and put a tab over misstatements and misappropriations. It covers various aspects like 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. It also includes documents and files leading to the formulation, appraisal and approval of the project.

According to the Secretariat for the Committee on Infrastructure, Government of India, a "Public Private Partnership (PPP) Project means a project based on a contract or concession agreement between a Government or statutory entity on the one side and a private sector company on the other side, for delivering an infrastructure service on payment of user charges". As per World Bank, a public-private partnership (PPP) involves the private sector in aspects of the provision of infrastructure assets or of new or existing infrastructure services that have traditionally been provided by the government. In another definition, Republic of Ireland states PPP as an arrangement between the public and private sectors (consistent with a broad range of possible partnership structures) with a clear agreement on shared objectives, for the delivery of public infrastructure and/or public services by the private sector, that would otherwise have been provided through traditional public sector procurement.

A particular arrangement or project may constitute a PPP, where the following key characteristics are present:

- Shared responsibility for the provision of the infrastructure or services with a significant level of risk being taken by the private sector, for example, in infrastructure projects, linking design and construction with one or all of the finance, operate and maintain elements;
- Long-term commitment by the public sector to the provision of quality public services to consumers, through contractual arrangements with private sector operators;
- Better value for money and optimal allocation of risk, for example, by exploiting private sector competencies (managerial, technical, financial and innovation) over the project's lifetime and by promoting the cross-transfer of skills between the public and private partners.

Types of PPP

Usually, PPPs are categorised into two types — Institutionalised PPPs and Contractual PPPs. Institutional PPPs are joint ventures (JV), between public and private sector stakeholders, to carry out

PPP projects by sharing the risks and to provide public services on long term basis. Bangalore airport is a good example of institutional PPP. This airport is being developed through a joint venture of the Airports Authority of India (AAI), Karnataka State Industrial Investment and Development Corporation Ltd. (KSIIDC) and private promoters (Siemens, Zurich Airport, Larsen & Toubro). On the other hand, contractual PPP's fall under the concession model, in which case a facility is given by the public sector unit concerned to a private sector partner which usually designs, constructs and operates the PPP project for a given period of time. In some cases, the operation of a facility may be contracted out to another private party. Under both the categories, the users pay for the facility availed and such charges accrue to the JV or the private sector partner.

Usually, the Following PPP Models are Adopted:

Build, Operate & Transfer (BOT): Under this category, the private partner is responsible to design, build, operate (during the contracted period) and transfer back the facility to the public sector. The finance for the project is the responsibility of private sector partner. Along with this, it also carries the responsibility to construct and maintain it. The Public sector will either pay a rent for using the facility or allow it to collect revenue from the users. The national highway projects contracted out by NHAI under PPP mode is an example. Other examples that include major BOT PPP initiatives are, the 'Trivandrum City road improvement project' and the 'Vizhinjam International Container Transshipment project'.

Lease, Operate & Transfer (LOT): In this PPP, a facility which already exists and is under operation, is leased to the private sector partner for effective and efficient operation, subject to the terms and conditions decided by mutual agreement. After the end of the lease period, the asset will be transferred back to the government at the end of the contract. Example includes leasing an educational institution or a hospital to the private sector along with the staff and all facilities, by entrusting the management and control.

Build, Own and Operate (BOO): In this PPP model, the facility is built, operated and completely owned by the private party during the period of contract. This will result in the transfer of most of the risks related to planning, design, construction and operation of the project to the private partner. The public sector partner will, however, contract to 'purchase' the goods and services produced by the project on mutually agreed terms and conditions. Examples of this type of PPP include the Gangavaram Port in Andhra Pradesh, which is being developed on the build-own-operate and transfer (BOOT) mode.

Design, Build, Finance & Operate: These are other variations of PPP and as the name highlights, the private party undertakes the entire responsibility for the design, construction, finance, and operation or operation and maintenance of the project for the period of concession. These are also referred to as "Concessions". The private participant to the project will recover its investment and return on investments (ROI) through the concessions granted or through annuity payments, etc. by the public sector partner. It may be noted that, most of the project risks related to the design, financing and construction would stand transferred to the private partner. The public sector may provide guarantees to financing agencies, help with the acquisition of land and assist to obtain statutory and environmental clearances and approvals and also assure a reasonable return as per established norms or industry practice, etc., throughout the period of concession.

Operation Concessions: In this type of PPP arrangement, the private sector partner is responsible for design, financing and construction, and thus gets the right to collect and keep in full or part, the project revenue over a specified period called 'Concession Period'. At the end of concession period, it may be renewed or the facility again rests in the hands of public partner. Examples include road projects, toll bridges, and four lane-six lane projects

Need for PPP Audit

As the stakes in the PPP are getting higher and higher, combined with the urge to reap maximum benefits and profits with more such partnership projects, it is seen that certain malpractices have also started creeping in the process by vested interests. So, it is also becoming indispensable to assure quality, standards of service, and viable developments through these arrangements, keeping cost considerations on the forefront. Audit is the only tool which acts as a deterrent against wrong doings. Fear of audit keeps a check on malpractices in not just government departments but also with other organisations. The most important factor that

is considered to conduct the audit of PPP projects is to ensure the value for money aspects of such transactions. The main purpose of the audit, and based on which the scope could be defined, would thus be to provide a reasonable assurance to all stakeholders, including the government, legislatures, and the public, that the PPP arrangement subjected to the audit has yielded value for money and that public interests have been adequately protected. Government as well as private sector organisations are depending on IT applications for internal operations and for other purposes. While automated systems provide advantages over manual, they also present the risk of fraud and misstatements. So, it is very necessary to conduct proper PPP audit with automated approach and applications.

Aspects Covered under PPP Audits

PPP audit itself is a very critical process, which involves checking and covering wide areas and aspects to finally draw a conclusion and put a tab over misstatements and misappropriations. It covers scrutinising the under mentioned aspects:

- The data, records, analysis and the decision process of the government department/public sector agency, who 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 with due diligence to fairness, transparency and objectivity.
- In-depth analysis of the project documents including the shareholders' agreement, concession agreement, operation and maintenance agreement, etc., total project cost, financing arrangements (including cash flow, ROI/ERR/DCF), justification for the viability gap funding, contract period, etc.

The scope of PPP audit normally includes monitoring actual volume of demand (viz., traffic, usages) and revenue generation (including from commercial developments) against the projected flow and the arrangements to monitor the trend periodically, checking the quality of systems to verify the accuracy and reliability of reporting the results, assessing the economy issue by keeping a tab on cost of operations and avoiding flooding of costs, revenue sharing arrangements, readjusting the contract period in case the Rate of Return (ROR) is higher than what was projected, maintaining quality and consistency of service at affordable cost to the users at large, etc. Scope of PPP audit also includes checking of accounting documents, records maintained, bills and other related data's of constructions and arrangements, safeguarding public interest and value for money considerations, checking escrow accounts, operation and maintenance of assets and revenue generation & sharing models, Quality and standards of the service, customer protection, dispute resolution and asset transfer arrangements, etc.

In PPP arrangements, even though the assets under the PPP will be under the control of the private sector partner, the concession agreements will normally provide for submission of reports and accounts through the Independent Auditor (to be appointed from the panels maintained by the government), with contractual and professional responsibility to ensure the accuracy of reports. There will always be one or more representatives of the government/public sector partner Public Private Partnerships (PPP) in Infrastructure Projects on the Board of Directors/ Management Committee or equivalent body of the PPP entity and that they will be privy to major decisions will also be helpful to public auditor. Hence, the public auditor must verify all such documents supposed to be in the possession of the public sector partner. That includes Board agenda and minutes and other related papers.

PPP Audit Process

Audit of PPP projects requires a combination of skills and expertise; the audit methodology has also to be innovative. Since there are different types and categories of PPPs as mentioned earlier, the approach of auditor should be to accurately target such divergent PPP arrangements. For instance, a Joint Venture Company (JVC) constituted for the purpose of an airport development, will have a totally different composition and contracts arrangements than another partnership set up for a highway development, with a consortium of contracting companies carrying out the activity as an enterprise of their own. The focus of social sector PPPs (running schools, hospitals) will vary in their content and form to a significant measure from the PPPs set up for, say, road or port development. Nevertheless, most basic features will be common for all PPP arrangements, which will help public auditors to converge their approach to audit.

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The methodology for PPP audit will, therefore, have to be devised to suit the requirements of the individual projects under scrutiny. However, the under mentioned common steps and approaches apply to all PPP audits:

- Detailed review/checking of project documents starting from the initial stage to the formulation and approval stage of PPP.
- Verifying all the contracts and agreements entered into between the parties and scrutinising legal and contractual obligations created.
- Feasibility study of entire PPP approach for the project.
- In-depth analysis of Grant of concessions, testing revenue generation using quantitative techniques.
- Assessment of the transparency and integrity of the bidding process.
- Financial audit to ascertain the justification for the viability gap funding / annuity payments.
- Audit of the construction and engineering to verify quality, innovations, economy and efficiency.
- Quality & compliance test, where necessary, to ensure that agreed standards have been maintained.
- Surprise & normal survey on test check basis, to conform to the accuracy of demands and revenue collections against projections.
- Checking of Customer satisfaction level with the facility generated.
- Checking actual revenue generation and sharing model.
- Safeguarding the value of public money by asset valuation.

When auditing PPP arrangements, one should follow sequential approach. This is one of the most logical approaches to PPP, as it covers the various aspects of the partnership arrangement sequentially, as they occur in actual practice. In this regard, the first stage will be to analyse the project formulation and approval process.

Audit of Project Formulation and Approval

Generally, the following documents would be generated for the project formulation and approval i.e., Strategic Plan, Feasibility Report, Detailed Project Report, Shareholders' Agreement, State Support Agreement, Operation, Maintenance and Development (OMD) Agreement, Concession Agreement, Technical Operation Agreement, Lease Agreement, Substitution Agreements, Independent Auditor's Agreement, Escrow Account Agreement & Other subsidiary Agreements. Checking all these agreements to understand, review approval & feasibility of the arrangement is necessary. Auditor should check that the strategic plan identifies the need & justification for the project.

Auditor should see that the feasibility reports conform to the approved specifications as well as review and analyse the cost estimates to check their transparency. Reviewing expected cash flow to check whether they justify the total capital cost, and feasible and timely abatement of the funding for the project is also a crucial part of this audit procedure. Assessing that ROI has been worked out correctly taking into account the most optimal formulation. Lastly, the auditor checks whether the established procedures for project approval are correctly followed.

Review of Concession Period

The second important step in PPP audit, is review of the concession granted to the concessionaire in terms of the quantum and the period of the concession. Concession amounts to the delegation and transfer of the governmental authority for recovery of user charges/tariff to the private participant possibly under monopolistic conditions, with sharing of risks and contingent liabilities by the public sector participant. Hence, the critical issue before the auditors is to verify the reasonableness of the concessions granted, including the magnitude and the period of the concession.

The auditors may apply the undermentioned criteria, among others, during the course of their audit of the Concession Agreements, like identifying how the concessionaire was selected? Was competitive bidding process adopted, as required? Were all project parameters such as concession period, toll rates, price indexation, technical parameters, etc. clearly stated upfront to make the process transparent and to ensure full and complete disclosures to the prospective bidders? Were the bidders clearly advised to indicate the grant requirements for the project, so as to avoid

future disputes? Were they also required to specify clearly the percentage of revenue they would be willing to share with the government agency? Are the provisions in the Agreement regarding the grant of the concession clear and specific, without giving room for unintended gains to and claims by the private partner? Are the language and the clauses of the Agreement worded clearly and unambiguously? All this inquiry leads the auditor to make suitable conclusions about concession agreement and their viability.

Checking of risk allocation

As brought out earlier, a major characteristic of the PPP arrangement is the balanced and fair allocation of risks between the partners. The underlying principle of risk allocation is that they are allocated to the parties that are best suited to manage them. The public auditors may test the risk allocations of the project under scrutiny based on the following criteria, among others. Auditor checks the concession Agreement & sees to it that the project risks are shifted to parties in a balanced manner. He scrutinises financial risk and revenue risk associated with the project and ascertains as to who bears the risk and to what extent. Auditor checks the guarantees and assurances granted by the government/ public sector partner, and ensures that these are well defined and quantifiable

Auditor reviews as to whether the contingent liabilities arising from such assurances are transparent and limited. Whether the conditions, subject to which they could be invoked, realistic and specific? Are there clear and acceptable substitution clauses to face such eventualities? He also checks who will bear the risk which will arise, if there is an unexpected change of government policy or a sudden economic downturn? What are the conditions which rule them? Are these conditions justified? What is the extent of the risk of the private partner failing in his obligations? What are the remedial actions that can be taken in such circumstances? This exercise helps the auditor to understand the overall risk associated with the project and its allocation between parties to the project.

Audit of Financial Risks

An important aspect to be verified during the audit is the transfer of financial risk. Public auditors must assess whether the entire risk was transferred to the private participant, and if not, what percentage risk is retained by the public sector partner. For checking financial risk, auditor should verify whether any guarantees were given by the government and if so, the conditions, subject to which they could be invoked. Auditor should check both the financial closure date given in the Agreement and the actual date of closure, to ensure whether the financial closure was done within the sanctioned time or has there been any delay. Where delay is found, he should check whether such delay in financial closure resulted in any change of the assumptions underlying the project such as escalation of project cost, demand and revenue projections, etc.? Was any extension sought by the private participant? If so, was the penalty stipulated in the Agreement levied? Auditor should also check all the financing arrangement to assure that the terms of lending by the financing agencies were reasonable. In some instances, he may discover that there was a huge gap between the rates of interest levied at the RBI / prime lending rates and that of leading banks from where finance has been procured. In such cases, the auditors should verify the actual loan receipts and interest payments, to ensure that the cost of financing the project is real and not disproportionate. It should also be checked that the schedule for the release of the sanctioned loans should match with the established milestones for the completion of the work from time to time. Along with other things, auditors must also check the performance bond furnished by the private sector partner thoroughly and verify its adequacy, validity, appropriateness and the mode of releasing them.

Audit of Viability Gap Funding (VGF)

One of the most important steps is checking viability gap funding. Grants from government may be payable for the project either as viability gap funding (VGF) or as annuity during the construction and/or operation of the project. It is essential for the auditors to assess carefully the actual funding gap by analysing the total capital cost, revenue generation based on projected demand, tariff/toll structure and capping (if imposed), rate of return and cash flow. The Central/ State Governments provide viability gap funding up to percent of the project cost in deserving cases. As per government scheme for PPPs, the infrastructure projects which are economically justified, but fall short of financial viability due to long gestation period, inability to raise the user charges to commercial levels etc. are granted financial support of up to 20% of the capital costs. Additionally, the sponsoring ministry or the State Government concerned could give grants of up to another 20% of the total capital cost. These are, however, subject to certain terms and conditions like

the private participant should have been selected on the basis of competitive bidding and would hold at least 51% of the shareholding of the PPP unit. Further, the project agreements must follow the "best practices" to safeguard "value for public money" and user interests.

Audit of Tariff/Toll/User charges

In most of PPP projects, the user charges for the facility created under the PPP arrangement may be subject to regulations by independent authorities or may be notified under the relevant statute by the state authorities concerned. For example, the toll charges to be levied for a national highway may be notified by the Ministry of Road Transport & Highways or the port charges may be fixed by the Tariff Authority for Major Ports (TAMP). In the case of electricity, the State Electricity Regulatory Commission (SERC) is the empowered agency to fix the tariff. These features leave an element of uncertainty regarding the tariff or user charges to be levied in the future for the infrastructure facilities to be created under the PPP projects; whereas the Concession Agreements usually provide for the rate of return on investments on the basis of certain norms of tariff or formulae. So, the auditors should carefully look for any possible ambiguities and pitfalls in the fixation of tariffs and user charges, which could be recovered by the private partners as per the terms of the contracts and for this purpose, they should undertake a close scrutiny of the contract conditions. The return on investment for the participants should not, in actual practice, exceed the norm established by the government in each case. In case there are no such norms or standards, the financial returns as per the industry norm may be ascertained and applied.

Audit of Total Project Cost

One of the critical and significant steps in PPP audit is review of project cost. Total Project Cost (TPC) is of immense importance to the contracting arrangements between the partners to a PPP. For example, TPC determines the cost of construction, operation and management of the project, debt-equity mix, influences the user charge, viability of the project, financing pattern, financial rate of return (FRR) and economic rate of return (ERR). TPC could also be adversely impacted by concessionaire's risk perceptions in terms of attitude of the government authorities and degree of absolutism in the terms and conditions incorporated in the bid documents as to those aspects which can be precisely predicted and measured upfront. It is, therefore, very important for the public auditors to closely examine the TPC to see that it includes only essential items, its composition conforms to the accounting standards, and is not flooded up intentionally. Usually, public auditors are familiar with the audit criteria to analyse capital expenditures and to review project cost.

An important aspect to be verified during the audit is the transfer of financial risk. Public auditors must assess whether the entire risk was transferred to the private participant, and if not, what percentage risk is retained by the public sector partner. For checking financial risk, auditor should verify whether any guarantees were given by the government and if so, the conditions subject to which they could be invoked.

Audit of Bidding and Evaluation

A major task to be carried out during the audit of PPP projects, is the critical evaluation of the process followed by the government agency to select the private participant. Public auditors must verify the procedures followed in this regard from the beginning itself, to provide assurance to stake holders about the integrity and transparency of the selection process. The basic postulate of PPP is that it should secure value for public money by ensuring transparency in the procedures followed and by ensuring adequate competition.

Audit of Construction of the Project

In PPPs, as the construction risk is transferred to the private participant who is responsible for the design, construction, specification and quality of the facility, the auditor's main focus has to be to scrutinise the quality of end product. So, usually the independent auditors are appointed on behalf of public sector partner to monitor the project activities, and to act on their behalf to accord sanctions and to coordinate the construction, technical and commercial activities. The independent auditors are responsible to ensure the timely completion of the project by watching the milestones, quality of construction and adherence to the standards and specifications of the project by the implementing partner. Independent auditor performs several quality tests, mandatory tests and monitors the construction activities and reports to the public sector

partner periodically. At this stage, auditor tries to check whether construction work has been done properly following all agreed guidelines and mandatory requirements of the projects. For this, he checks all necessary documents along with the test reports of the independent auditor. On the basis of his audit and checking of various assertions related to construction, he reports the discrepancies and qualifications in the final report.

Audit of Monitoring of the Project Construction Activities

Audit of project construction activities involves checking the compliances and expenditure related data to ensure they are proper and reasonable, and are not escalated. Auditor test checks legality of all the revenue expenses and incomes generated, and reports to the public sector partner. Auditor also checks that the independent auditor so appointed is proper and he is performing his functions and responsibilities properly. For this, he reviews the periodical reports submitted by independent auditor. Auditor verifies terms and conditions of appointments of the Independent Auditor and reviews that the fees payable to them are reasonable, since such payments would add to the TPC. More importantly, it must be seen as to whether proper guidelines and directions were issued to them for discharging their duties and that they have been made fully accountable for their tasks. Any other system deficiencies observed in the monitoring systems of the project construction and related activities, should also be subjected to audit comments.

Audit of Commercial Development

When PPP projects come into play in a particular area, it leads to a holistic development of the place as several other projects and facilities develop along with them like gas & service stations, duty free shops, restaurants, hotels & recreation centers. These commercial openings which develop under and with the main project provides huge direct and indirect benefit to the project partners. So, usually it is seen that Concession Agreements allow the private participant to exploit these commercial openings and raise revenue, which must go to abate the Total Project Cost and thus reduce the burden of toll/user charges on the consumers. In public audit, care must be taken to list out the commercial facilities granted to the consortium and to examine that the cost incurred for such developments are conforming to their earning capacity and comment on any hidden benefits to the partners concerned. Though the nature of the commercial development in each project may vary depending on the facility, location and other factors, the following criteria may be used in auditing such windfall benefits to the partners, with appropriate modifications as necessary. So, the auditor should scrutinise all aspects related to expenditure and potential revenue generation through these commercial developments within the projects, and check for its viability and sharing propositions.

Audit of Operation, Maintenance & Development and the Collection of Revenue

In almost all PPPs, the risk of the Operation, Maintenance and Development is present and handled by the private partner, as private partner has the best capacities and capabilities to manage it efficiently. In certain concessionaire agreements where the private party operates and maintains the facility till the concession period, usually when such period expires, the government reissues the licenses to the same or another party who then becomes responsible for fresh investments and maintenance work related to the facility. Auditor should check the terms and conditions of the concession with regard to maintenance and operations of the project. For this, he should review TPC, cost of O&M, taxes and levies, ROI, and the user charges. He should also get a cash flow prepared and get that verified and scrutinised with data available during public audit. The scrutiny will enable the auditor to assess the reasonableness and the justification for the user charges, and the concession period arrived at for contracting. The quarterly and annual statements of accounts and traffic/user charge information and other data to be provided by the private sector partner, should be verified during the audit for accuracy and faithfulness. The verifications provided by the independent auditor may be used as supporting documents for audit evidence. Public

One of the most important steps is checking viability gap funding. Grants from government may be payable for the project either as viability gap funding (VGF) or as annuity during the construction and/or operation of the project. It is essential for the auditors to assess carefully the actual funding gap by analysing the total capital cost, revenue generation based on projected demand, tariff/toll structure and capping (if imposed), rate of return and cash flow.

auditors could also seek clarifications and assurances from these functionaries in case of doubts.

Auditing Public Private Partnerships for Value for Money Evaluation

As far as PPP Audit is concerned, not just the project should be value for money for private & public partners, but it should also be a win-win situation from the user's point of view. So, the public auditors should not only safeguard the interest of public partners but also secure the user's view point. The auditor should check whether the contract provides for sharing of profits on reasonable basis and whether there is transparent system with regard to sharing of information on the performance and in the discharge of the partner's obligations to the public participant, as also to the users at large. As customer is the king, the customer satisfaction is of utmost importance. So, the public auditor should enquire to extract best of information on this crucial issue. Auditor should check that PPP has brought in technological excellence, innovation, affordable and reliable services at the user's hands. Auditor should verify that customer satisfaction has been maintained and a grievance redressal mechanism is in place, and is functioning effectively to create the PPP Project as a value for money equity for its users.

Audit of Valuation of Assets

Last and most challenging step before finalisation of audit report, involves verification of the value of the assets and infrastructure facilities which existed at the time of handing over the site/facilities to the successful bidder for the construction of the project and operation and maintenance. It involves verification of size and value of land allotted, cost of facilities transferred, and other assets provided. The value of the land handed over and brought into account is to be verified carefully since in many PPP arrangements, the value of the land and facilities transferred would become the government's share capital in the JVC to be formed. Valuation of the other assets transferred to the private partner is also very important and the auditors should verify the basis and reasonableness of such transfers. The auditor not only verifies the value of assets, but also takes into consideration the conditions for estimation of the residual value in the event of termination of the contract or at the conclusion of the concession period. An auditor also verifies the value of assets constructed by the private participant from the records available. The valuations and depreciation calculated now are of utmost significance as they would be of substantial concern in the event of termination of the contracts at future point of time. Valuation exercise becomes critical as currently there is no specific accounting guidance under the Indian accounting standards for PPP arrangements because of which, the task of valuation of assets and accounting for replacement and maintenance expenditure becomes a bit complex and inconsistent. The Comptroller and Auditor General of India has published guidelines and ICAI has published exposure draft for PPP audit which is a handful resource. The Guidelines have been primarily framed for use by the Indian Audit & Accounts Department in conducting such audits.

Audit Findings & Reporting

Finally, the audit report is prepared by the public auditor which highlights the achievements and end results. Major findings and critical issues are discussed in special conferences and meeting arranged after completion of audit. All the relevant findings and conclusions reported in the audit report expected to be taken for discussion because of their nature, are expected to be supported by the necessary evidences, so that further clarifications and other deliberations can be demanded in this regard. Later on, proper opportunity is provided to the PPP partner, to respond to the audit conclusions and their responses are recorded. Audit findings are accompanied with audit recommendations, which help to decide the future course of actions and steps to be taken with regard to PPP partnership in existence.

Conclusion

Public private partnerships are the need of the hour and it is also important that they are monitored to ensure that their benefits accrue to the end users properly, for whom they have been taken up to provide for the best of the infrastructural and other needs. PPP audit is the only tool available to safeguard such a crucial objective in present times. ■

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