International Seminar on

Strengthening Public Investment and Managing Fiscal Risks from Public-Private Partnerships

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Session 6: Achieving Value for Money: Perspectives from PPP Audits

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I would like to thank my colleagues from the national SAIs for their interesting presentations.

The European Court of Auditors has a particular interest in the issues raised during this Seminar.

As you all know, the **European Court of Auditors is the external auditor** of the European Union. As such, and according to its mandate set out in the Treaty, the Court examines the accounts of all revenue and expenditure of the Community and of all the bodies set up by it. The Court examines also whether all revenue has been received and all expenditure has been incurred in a lawful and regular manner and whether the financial management has been sound. It provides an annual Statement of Assurance (known as the DAS from its French acronym) as to the reliability of the accounts and the legality and regularity of the underlying transactions. As far as I know, this two-fold obligation is unique to the European Court of Auditors. The Court also carries out value for money audits.

It should be recalled that, according to the Treaty, the **European Commission** is **responsible for the execution of the budget** and the Member States are required to cooperate with the Commission to ensure that funds are correctly used. However, most of the community funds - about 80% - are implemented under a system of shared management involving national or regional administration. Shared management means that the Commission remains the ultimate responsible for the implementation of the projects and programmes, but the Member States' administrations manage and control these funds according to the Community law. This is the case for agricultural expenditure but also for structural measures, like projects funded under the Cohesion fund, which are primarily concerned by the Public-Private Partnership, EU funding being only provided when there is a public co-financing.

One important issue is to clearly delimit the framework, the nature and the division of responsibility between the different actors concerned by the execution of Community budget.

This issue is even more important when we talk about private-public partnerships.

Achieving value for money is a key issue in the overall process of PPPs. A range of performance measures should be applied in order to evaluate the economy, the efficiency and effectiveness of each project as well as its sustainability.

According to a statement made by the Commission in its "Guidelines for successful PPPs", "... the prime objective of the Commission in protecting the public interest should be to optimise the grant allocation in such a manner that the project is realised, is financially viable, sustainable and generates the maximum social benefit but which also limits private sector profits to reasonable levels".

As my colleagues from the SAIs mentioned it, auditing a PPP appears to be a complex process that requires thorough planning before the audit itself begins. Particularly good preparation in advance preconditions that audit objectives are achieved.

Until now, only a **limited number of PPP-type projects** have **received EU grants**. I will just name a few of them like Athens' International Airport, the Vasco da Gama Bridge in Portugal, a few de-salting plants in Spain. The Vasco da Gama Bridge project was audited by the Court in the context of the Statement of Assurance for the year 1999. The Court raised observations about structural problems affecting the project, weaknesses in the revenue forecasts as well as excess in the total EU contribution.

ECA's audit experience in this field is however limited. Several reasons can explain the fact that ECA has not come with conclusions on individual PPP projects:

- First of all, ECA's audits focus on policies and/or programmes. Although projects financed through PPP could be audited in the context of more general audits, on the Cohesion Fund for example, specific projects are not the direct subject of our audits. Also it would not appear efficient for ECA to realise horizontal value for money audits covering projects using the PPP system as, as I said, our approach is usually linked to programmes or policies.

- Secondly, the EU requires co-financing of the Member States and can provide up to 85% of the costs taken over by the State, depending on the instrument.

Private financing results in a decrease of national public financing and, as a consequence, in less EU funding.

- Finally, although EIB participation can be very important, ECA does not have the mandate to audit the projects financed by means of the Bank own funds. Our mandate is limited to the audit of the operations carried out by the Bank and charged to the EU budget.

Despite our limitations, we are, nevertheless, very keen to benefit from the audit experience of other SAIs.

To conclude, I suggest focusing the question time we have on accountability and external audit issues, which are important in terms of budget implementation process and Parliamentary control.

The first question I would like to raise is: Is the methodology followed by the external auditor for its value for money audits of "traditional" projects still appropriate for the audit of PPP projects?

Secondly, how can the external auditor control that improve efficiency is the main reason for going to public-private partnership rather than national administrations using PPP mainly to keep budget deficit under control?

I thank you for your attention.