



**CATÓLICA
LISBON**
SCHOOL OF BUSINESS & ECONOMICS

UNIVERSIDADE CATÓLICA PORTUGUESA

**PORTUGUESE PPP'S SPECIAL PURPOSE VEHICLE ENTITIES
AN AUDIT APPROACH**

**Rodolfo Maçarico da Rocha
150104031**

Advisor: Ricardo Reis

“Dissertation submitted in partial fulfillment of requirements for the degree of
MSc in Business Administration, at the Universidade Católica Portuguesa,
September 2013”

Portuguese PPP's Special Purpose Vehicle entities - an Audit Approach

Rodolfo Maçarico da Rocha

Abstract

The purpose of this thesis is to assess if audit of Private Public Partnerships (PPP), especially regarding Financial Statements of the private partner involved, is sufficient and meets the needs of its stakeholders. This is an issue that has an important role in the discussion of PPP arrangements in Portugal, where Value for Money and political use of such arrangements has been thoroughly debated, but little has been said and written regarding the private partner overseeing. To address these issues first we visit the main requirements for a financial statements auditor, based on the International Standards on Auditing, and then we outline a proposed audit approach for a Special Purpose Vehicle (SPV) entity involved in a Private Public Partnership. Next we consider a case study, Escala Braga – Sociedade Gestora do Estabelecimento SA, SPV in charge of managing Braga Hospital in the north of Portugal. Furthermore possible adjustments to the planned audit approach are discussed if other SPV involved in PPP were to be borne in mind.

Although, as we realize, the auditor requirements of the SPV entity involved in a PPP arrangement are the same as any other privately held company, we address the fact that those companies may be subject to higher scrutiny from stakeholders of the PPP arrangement itself and planned an audit approach able to give a thorough evaluation of Escala Braga's financial statements. That fact leads to the conclusion that, given the specificities of the companies involved in PPP arrangements, there is a lack of special legislation on those companies, mainly regarding financial statements disclosure.

Resumo

O objectivo desta tese é avaliar se a auditoria de Parcerias Publico-Privadas, especialmente no que concerne a auditoria das Demonstrações Financeiras da entidade privada envolvida nesses contractos, é suficiente e vai de encontro às necessidades dos *stakeholders* da mesma. Este é um assunto com especial importância na discussão das PPP em Portugal, sendo que questões de *Value for Money* e o uso político das parcerias já é bastante discutido, mas pouco se tem debatido quanto à supervisão da entidade privada. De modo a debater estas questões é inicialmente obtido um conhecimento dos requisitos de um Revisor Oficial de Contas, à luz das Normas Internacionais de Auditoria, e posteriormente proposta uma abordagem de auditoria a uma sociedade veículo envolvida numa PPP. Para o caso é considerada a Escala Braga – Sociedade Gestora do Estabelecimento SA, empresa responsável pela gestão do Hospital de Braga. Adicionalmente são discutidas alterações à abordagem utilizada caso outras empresas envolvidas em PPP tivessem sido consideradas.

Embora, como foi possível concluir, os requisitos para a auditoria das demonstrações financeiras de uma empresa envolvida em PPP serem os mesmos de qualquer outra entidade privada, debatemos que aquelas poderão ser sujeitas a um maior escrutínio por parte dos *stakeholders* da PPP e como tal foi planeada uma abordagem de auditoria que obtivesse uma avaliação robusta das Demonstrações Financeiras da Escala Braga. Aquele facto leva à conclusão que para além do estipulado nos contratos da parceria, apesar das especificidades das empresas envolvidas em PPP, não existe legislação para as mesmas, especialmente no que se refere às divulgações das Demonstrações Financeiras.

Table of Contents

Chapter 1: Introduction	1
Chapter 2: Literature Review	4
2.1 – Public-Private Partnerships	4
2.2 – Public-Private Partnerships in Portuguese Hospitals.....	7
2.3 – Audit of Public-Private Partnerships	8
Chapter 3: International Standards on Auditing.....	11
Chapter 4: Portuguese hospital PPP – an Audit Approach.....	15
4.1 – Assessing the Risks of Material Misstatements (RoMM).....	15
4.2 – Escala Braga (Hospital de Braga – Entidade Gestora Estabelecimento).....	18
4.3 – Considerations for other PPP SPV entities.....	33
Chapter 5: Discussion.....	35
Chapter 6: Conclusion.....	38
References	40
Appendices	43

List of Figures

Figure 2.1 – Classification of infrastructure by type.....	5
Figure 4.1.1 – RCOCA: Assertions considered for Audit Approach.....	17
Figure 4.2.1 – Escala Braga FSC RoMM (RCOCA).....	20
Figure 4.2.2 – Tangible Assets Roll-Forward.....	21
Figure 4.2.3 – Intangible Assets Roll-Forward.....	22
Figure 4.2.4 – IFRIC Draft Interpretation D12 Decision Diagram for Escala Braga.....	23
Figure 4.2.5 – Equity Roll-Forward.....	27
Figure 4.2.6 – FSC RoMM Adressed by Substantive Procedures.....	30

Acronyms

COGS – Cost of Goods Sold

DGTF – Direção-Geral do Tesouro e Finanças

FS – Financial Statements

FSC – Financial Statement Caption

GDP – Gross Domestic Product

IAASB – International Auditing and Assurance Standards Board

IAS – International Accounting Standards

IES – Informação Empresarial Simplificada

IFAC – International Federation of Accountants

IFRIC – International Financial Reporting Interpretations Committee

INTOSAI – International Organization of Supreme Audit Institutions

ISA – International Standards on Auditing

ISSAI – International Standards of Supreme Audit Institutions

NAO – National Audit Office

NPV – Net Present Value

OROC – Ordem dos Revisores Oficiais de Contas

PPP – Public Private Partnership(s)

PSC – Public Sector Comparator

RoMM – Risk of Material Misstatement

SAI – Supreme Audit Institution

SAP – Substantive Analytical Procedures

SOE – State Owned Enterprise

SPV – Special Purpose Vehicle

TCU – Tribunal de Contas da União

TOD – Test of Details

VfM – Value for Money

Chapter 1: Introduction

One source of distress in the 2011 financial crisis in Portugal was the large number of mismanaged Public-Private Partnerships (PPP) contracts (Sousa, 2011). PPP are contracts or group of contracts where private entities undertake with public entities to ensure, in a long term basis, the development of a certain activity aimed at satisfying a collective need, for which funding, investment and exploitation are private entity's responsibility, in a whole or in part¹.

The first PPP contract in Portugal was the concession of Lusoponte, initiated in 1995, that aimed the construction of the new Vasco da Gama bridge over Tagus river and management of the already existing bridge 25 de Abril. Since then Portuguese governments have been using PPP in order to guarantee the infrastructures needed mainly in the road and healthcare sectors. According to Direcção-Geral do Tesouro e Finanças (DGTF) sixty-seven PPP are already in place (see Appendix 1.1) and eighteen are in development (see Appendix 1.2), no PPP contracts were signed after 2011 since in December of that year the Portuguese government declared in the Letter of Intent with IMF to be committed not to agree on new PPP contracts.

On the same year the total of Portuguese net charges with PPP full amounted to 1.823 million Euros, which represented 1,1% of GDP, compared to 0,3% of GDP in 2008 (DGTF, 2012). In 2012 a reduction of 41% was achieved yielding a total net charge of 1.067 million Euros, an evolution granted solely by road sector PPP justified by the implementation of toll payment in former shadow toll road concessions (UTAP, 2013), since all the other sectors presented an increase when compared to previous year. The rapid growth prior to 2012 on the number of PPP and the consequent escalation of the public money involved in such contracts, lead in the past years to a higher awareness by the public society for the outcome of these contracts and ultimately to its impact on peoples' lives. This impact is not only felt by the direct users of the infrastructure deriving from the celebration of those contracts but also by all tax payers that contribute for it by paying the fees agreed in such contracts. Being these tax payers not only the current tax payers but also those from future generations that were not included in the decision process (ATKINS, 2005). This fact enlarges the spectrum of stakeholders of the organizations produced by PPP contracts, therefore leading to an increase number on users of

¹ translation from Decree-Law n° 86/2003, of 26 April;

Financial Statements from the entities involved in PPP, both private and State Owned Enterprises (SOE). The purpose of this thesis is, focusing on the Portuguese reality, to evaluate to what extent these stakeholders are getting enough information from the entities involved in PPP contracts and if that information was validated by external audit, granting an independent opinion on the financial information provided for the several Portuguese PPP contracts. This way the research questions that this thesis will develop on and try to answer are:

- Regarding the main contracts of Portuguese PPP, what audit approach is required and what are its limitations?
- Does the legislation in place, concerning external audit and financial statement disclosures, meet the needs of PPP's stakeholders?

The awareness by the general public in the past years in Portugal of the possible impact that PPP contracts signed in the last two decades may have in the future of Portuguese economy, shifted these PPP's discussion to an almost daily basis. Although one can easily find information related to what and how contracts were signed, what the present value of those contracts is and what is their impact on the Portuguese budget, little is discussed on what kind of external audit is conducted to the organizations derived from those contracts. In 2012 Ernst & Young performed an analysis of 36 Portuguese PPP arrangements, including the case that will be addressed in this thesis, for DGTF which, as disclaimed by the auditor, must not be considered as an audit in International Standards on Auditing terms, and the conclusions do not form an auditor's opinion. In these reports the auditor focus on the evaluation of the public partner performance and the financial responsibilities to be borne by it, and therefore by the Portuguese State, and finally assesses the accounting framework to be applied in each arrangement. Still, the auditor expresses that had limited access to information in some aspects, including contract preparation phase and financial performance, showing a lack of information that is disseminated even for third parties performing audit work to these arrangements. Furthermore, the relevance of the existing legislation of external audit for companies engaged in PPP contracts is never raised.

Given that no statistical analysis that may be conducted would yield a conclusion on the research questions proposed, we will use Escala Braga, company responsible for managing Hospital de Braga in the north of Portugal under a PPP arrangement, as a case study. The use of a more complex and social case as a hospital, rather than a road PPP, is expected to give

way to more interesting conclusions and consciousness on the issues of PPP's Special Purpose Vehicle's (SPV) audit and control. Escala Braga is one of the hospitals' SPV working for a longer period, granting more reasonable financial statements to work with, in the sense that it is already in an established phase of its contract life cycle. Furthermore, we were able to obtain financial information for the company that is the basis of our analysis.

We concluded that the treatment regarding statutory audit given to a SPV involved in a PPP, is possibly the same as for any other company subject to statutory audit, where no specific legislation exists. We strived to outline a more persuasive audit approach given the risks identified by the type of company we were dealing with and the limitations of our work, but other auditor's professional judgment may lead to different risk considerations, leading to whether higher or lower risk assumption and consequently different audit procedures.

The organization of the thesis is as follows. "Chapter 2: Literature Review" strives to get a further knowledge on PPP and audit, analyzing the existing academic papers concerning PPP and its several aspects, visiting the special case of hospital PPP, and also the audit of financial statements in public companies and audit of PPP by Supreme Audit Institutions (SAI) and its guidelines. In "Chapter 3: International Standards on Auditing", the chief International Standards on Auditing (ISA) relevant to the SPV deriving from PPP contracts in place in Portugal are discussed. "Chapter 4: Portuguese hospital PPP – an Audit Approach" gives emphasis to Escala Braga, one of the hospital contracts which is the second largest area for which PPP have been used in Portugal and looks into the audit approach needed, discussing as well possible adjustments for other SPV audits. "Chapter 5: Discussion" states results that may be obtained by the audit approach presented, discusses its limitations and stresses the research questions presented for this thesis. Finally, "Chapter 6: Conclusion" summarizes the research made and its main conclusions.

Chapter 2: Literature Review

2.1 – *Public-Private Partnerships*

Regarding PPP as Sarmiento (2010) states “there is no unanimous definition”. Grimsey and Lewis (2004) presents that the shape of PPP has been brought by the concept of partnering developed in engineering construction industry, thus one may refer to the very definition of partnering. Bringing the concept to the PPP environment where through a contract a business partnering is achieved we find it as “the development of successful, long term, strategic relationships between customers and suppliers, based on achieving best practice and sustainable competitive advantage” (Lendrum, 1997). This definition supports the very definition of Grimsey and Lewis (2004) that, in broad terms, consider PPP as a way of delivering services bringing together customer and suppliers (public and private sectors entities) so their resources are combined bringing added value to a certain infrastructure. Still, there is a nuance that differ the definition of business partnering given above and the one of PPP shared by Grimsey and Lewis (2004) that is the incorporation of risk sharing, with the latter stating that the PPP arrangement may define clearly the division of risk between both parties. This aspect is also common to other definitions of PPP arrangements. OECD states that the effectiveness of such arrangements is dependent “on a sufficient transfer of risk to the private partners” (OECD, 2008) and the US National Council for Public-Private Partnerships adds “in addition to the sharing of resources, each party shares in the risks“ to its definition of PPP. Yescombe (2007) makes no reference to risk in his PPP’s definition, agreeing that PPP is a long term contract between a public-sector party and a private-sector party, where the latter designs, constructs, finances, and operates a public infrastructure, being paid over the life of the PPP contract. Still he agrees that “risk transfer is at the heart of structuring a PPP project” (Yescombe, 2007), and defends that it is not a question of sharing since it is transferred fully² to one of the sides of the partnership. Furthermore he states that risks in PPP are associated to uncertainty from provision of the service or financial viability of the project and that the default position in these contracts should be that the private-party delivers the service as required, and bears or manages all risks accordingly. This definition brings us closer to the one of the Portuguese law and presented in the Introduction of this paper, that will be the one considered when referring to PPP in the next chapters: PPP are contracts or group of contracts where private entities undertake before public entities to ensure, in a long

² The author presents two exceptions to this statement: insurance premium cost risk, and change in law;

term basis, the development of a certain activity aimed at satisfying a collective need, for which funding, investment and exploitation are private entity's responsibility, in a whole or in part³.

Grimsey and Lewys (2004) state that partnerships' appeal comes from its versatility, furthermore, alongside with the fact "that there is not a 'model' of a PPP", the authors refer to the flexibility of PPP arrangements to justify the number of different contracts existing and the several possibilities of categorizing a PPP. Design (D), Build (B), Construct (C), Own (O), Lease (L), Finance (F), Renovate (R), Operate (O), Remove (R), Transfer (T) and Maintain (M), are some of the responsibilities given to the private party in the PPP contracts that, when combined, yield the acronyms used to refer to a certain type of PPP. Sousa (2012) states that most of the Portuguese PPP contracts are related to road and healthcare, which are focused on transferring the Design, Build, Finance and/or Operate obligation to the private partner, resulting in DBFO contracts. Monteiro (2010) presents the Portuguese hospital PPP as DBFM. Apart from the acronym designation of the PPP's type of contract, Argy et al (1999, cited in Grimsey and Lewis, 2004: p. 20-21), categorizes infrastructures in hard or soft, economic or social classifications (See Figure 2.1), so one can say that Portugal has been focusing its PPP contracts on hard economic and hard social infrastructures.

Figure 2.1 – Classification of infrastructure by type

	Hard	Soft
Economic	Roads; Motorways; Bridges; Ports; Railways; Airports; Telecommunications; Power	Vocational Training; Financial Institutions; R & D Facilitation; Technology Transfer; Export Assistance
Social	Hospitals; Schools; Water Supply; Housing; Sewerage; Child Care; Prisons; Aged Care Homes	Social Security; Community Services; Environmental Agencies (EPAs)

Source: Grimsey and Lewys, 2004

When engaging PPP contracts or other private means to answer to governments' obligations for providing with such infrastructures, one may demand from the public partner, and hence public managers, to evaluate the use of the PPP, report on its results and be responsible for

³ translation from Decree-Law n° 86/2003, of 26 April;

them (Minow, 2003). Often in literature the way presented to evaluate the use of PPP, PPP tenders and the PPP contract itself is the ‘Value for Money’ (VfM) approach. VfM “is the least expensive option for the same output and quality of service” (Sarmiento, 2010), when comparing the execution of a certain project with a PPP or using the usual procurement methods of the public sector partner. To assess the latter a benchmark measure - Public Sector Comparator (PSC) - is created based on a hypothetical scenario that the project would be conducted by the public partner alone (Grimsey and Lewys, 2004). The comparison is then made by computing the Net Present Value (NPV) of the several options for a certain project. The least expensive option, which is the one with the most VfM, is the one that should be pursued. Although VfM is a “simple methodology” it cannot be the only trigger to pursue a project through PPP (Sarmiento, 2010). Furthermore the hypothetical nature of the PSC and the very own computation of the NPV, where projected cash-flows are discounted at a discount rate for which there is little international consensus and greatly affects the result (Yescombe, 2007), being intrinsically related with estimates may undermine the use of such method. Nonetheless, since PPP’s investments fall outside the public budget, Yescombe (2007) also argues that the discussion may not be whether to pursue the project with a PPP or public procurement, but between PPP and no project at all. This is a very important issue, especially when budget constraints are in place, such as in European Union (Yescombe, 2007). Still Sarmiento (2010) defends:

“public sector comparator prior to the bid, for three reasons: 1. It is the best way to know the detailed cost of the project if developed by the public sector. (...) 2. developing a public sector comparator methodology will certainly improve accountability and public management competences. 3. Although running a public sector comparator after the bid might show if value for money were achieved, if the result is negative, a renegotiation of the public-private partnership would be in order. (...)”

The fact that PPP avoid budget constraints, as referred above, is the main reason for the growth of PPP contracts worldwide (Yescombe, 2007). This fact made possible to Portugal shortening the infrastructure deficit with compliance of both national and European budget policies from the 1990s until the most recent financial crisis (Sousa, 2012). Adding to this, one must consider the political evolution of the last decades where the encouragement of ‘New Public Management’ measures as decentralized governments, privatization of public services and incorporation of performance-based measurements for public sector, provided the basis to PPP (Yescombe, 2007). Grimsey and Lewys (2004) argue that the recent growth in PPP is due to dissatisfaction with traditional procurement and construction methods, and the evolution in financing models. Minow (2003) also adds that governments’ determination

to argue a lesser government size, while actually outsourcing it, is one of the trends that lead to PPP's growth. Despite the possibility of PPP being used by politicians as off budget projects, the literature addresses other benefits of such contracts. One of the main reasons presented by literature to pursue PPP contracts is the risk sharing possibility as discussed earlier, where the private party assumes part or the whole risk of a certain project, it is one key element of VfM and should be accounted in its computation (Yescombe, 2007). Yescombe (2007) states that PPP allow economies of scale since procurement can be made as a whole and not in small contracts. This is in line with the US National Council for Public-Private Partnerships (2012) that adds that by contracting a PPP, public partners may be able to gain a long-term budgeting perspective since a single contract with the different phases of the project is needed, instead of having several contracts (Design, Finance, Construction, Operation and Maintenance) as in traditional procurement. This allows cost savings in Operation and Maintenance since they are specified in the contract and not exposed to inflation. Another common argument is that the involvement of a private entity brings more efficiency to the project, but Yescombe (2007) alerts that the private party is paid to provide what is contracted and not to achieve more efficiencies.

2.2 – Public-Private Partnerships in Portuguese Hospitals

Monteiro (2010) addresses that the political decision for the use of PPP hospital program in Portugal, launched in 2003, followed two decades of poor procuring public hospitals experience, with design and build contracts yielding “sub-standard performance and high cost-overruns”. Being launched when a new PPP procurement framework was established in Portugal, this program was the first where projects had included a PSC based on a business case. Given the size of the health market and the country itself, there was no high competition between knowledgeable business groups in the sector, triggering the government decision of announcing the delivery of hospital PPP projects (Monteiro, 2010). Two new hospitals and eight replacement hospitals were announced. This led to the development, in a short number of years, of several private firms that gained the ability to bid for those PPP projects through alliances with foreign firms and hiring healthcare experts, creating the competition initially needed (Monteiro, 2010).

Since the PPP contract integrates all hospital services, Monteiro (2010) describes them as integrated models, which transfers significant risks for the private partner but also allows the partner to manage risks efficiently. In this integrated model, there is only one contract that is

signed by a public partner and two SPV, one for management of the infrastructure for 30 years and the other for the management of clinical services for 10 years (with possible extension to 30 years). The difference in the terms for the infrastructure and clinical services' SPV prevents the locking of the public partner, and hospital users, to technologies and demographic characteristics presented in the contract (Monteiro, 2010). The first is paid by availability and the latter is paid according to demand plus availability of the emergency services. Although the demand risk is allocated to the private partners, it is mitigated by an "expected demand" negotiation process that allows adjustments to the hospitals capacity (Monteiro, 2010). Despite that, Monteiro (2010) states that the use of PPP in hospital management is leading to the creation of new institutions that will take PPP hospital as benchmarks, focusing on quality and effectiveness, with benefits for the end user.

2.3 – Audit of Public-Private Partnerships

According to our research, an issue not at all discussed in academic literature regarding PPP contracts is how these contracts and entities are audited. Since a PPP contract involves both private and public entities one may argue whether the contract should be audited by the private auditor or the Supreme Audit Institutions (SAI). Comptroller and Auditor General of India (CAGI, 2009), the Indian SAI, presents that even if the public partner represents a minor part in the project, although initial capital expenditure for the infrastructure is private partner's responsibility and construction, management and operation risks are borne by the private party, SAI audit scope on PPP is supported by the public partner retaining accountability for the results of the project, still being responsible to deliver goods and services to the public, and the allocation of public assets to the private partner requires audit. Furthermore an audit carried by SAI is necessary to validate the VfM of the PPP project providing "reasonable assurance to all stakeholders" that the contract is meeting its objectives (CAGI, 2009). CAGI (2009), also argues that PPP contracts fall out of the usual audit carried out by public entities, starting in the very own characteristics of PPP where the public sector has to deliver goods and services at a reasonable price and the private sector strives for profit.

In Brazil, the SAI Tribunal de Contas da União (TCU) is in-charge for continuous control of PPP arrangements for which legislation was created, establishing the documents that must be subject to TCU analysis. According to Brazilian legislation, arrangements are only considered as PPP if their minimum value exceeds twenty million Brazilian Real and its term is between 5 and 35 years. Several technical and economic feasibility studies must be performed by TCU

for a PPP, but more important is the work performed by TCU which the Brazilian SAI divided in five stages. First, economical, environmental and budgetary feasibility of the project is assessed. Second, tenders are analyzed and the contract is drafted. Third stage regards the technical analysis of the project, followed by inspection of the choosing process of the winning bidder. The last stage regards the adjudication and signing process. There is no reference to analysis conducted after the PPP is implemented, and no private partner oversight is addressed by this model.

This issue, also not addressed by the UK's SAI National Audit Office (NAO), contrasts with its own perspective of public audit as being a "main intermediary between users and decision-makers" as presented in OECD's "The role of Supreme Audit Institutions with Regards to Complex Infrastructure Procurement" presentation by Ed Humpherson. NAO also limits its work to the VfM and identifies its risks and challenges as being choosing the right delivery model, financing of that model and ensuring efficient delivery, where private partner performance may be included.

International Organization of Supreme Audit Institutions (INTOSAI, 2004), through ISSAI 5240 - Guideline on Best Practice for the Audit of Risk in PPP, approaches some of the risk management issues that can be faced by SAI, from lack of expertise to evaluate if a certain PPP is meeting public partner's needs to the SAI examination being too narrow by focusing only on what went wrong, alerting as well to the risk of no access rights to the private sector information. Related to this, and given the dual composition of the partnership, arises the discussion of what is the public sector auditor responsibility and what documentation and records should be audited by SAIs. In its ISSAI 5220, INTOSAI addresses the need for SAI to clarify its responsibilities and remits to examine a PPP. Tribunal de Contas (the Portuguese SAI) (2008), in line with INTOSAI standards, presents planning, procurement, project, public partner performance and private partner performance (5Ps), as the five steps of a PPP arrangement that requires attention from the SAI in order to validate the VfM of a certain PPP contract. In the planning phase the SAI should evaluate the work done by the public partner within the preparation and evaluation made of the project as well as the supporting documentation to that evaluation. For the procurement phase the SAI is required to validate rationality, transparency and competitiveness of tenders' process to guarantee the best VfM option is chosen. Project refers to the public partner positioning in the contract, where SAI must identify the risks associated to the contract for the public partner and yield the price of

the PPP to the public partner. Tribunal de Contas suggests that the public partner performance should be evaluated regarding VfM, accountability and affordability. The last P is the private partner performance and is the less developed in Tribunal de Contas Guideline, where SAI evaluation of performance validates only if contracts' clauses are being met including service quality, as for the financial performance SAI is only required to compare real figures with forecasts.

Although the different SAI may conduct their own procedures regarding the oversight of PPP, one may conclude that the existence of the INTOSAI, from which all the mentioned SAI are members of, leads to a standard treatment over the world of PPP arrangements by SAI. The greater or lesser use of these arrangements may change according to the country being analyzed and that is what differs in SAI's intervention, since SAI may gain a more significant part in all the process. Still the guidelines for the SAI do not differ greatly throughout the world, and are intrinsically related to the ones supported by INTOSAI.

Chapter 3: International Standards on Auditing

PPP private partner's financial statements audit is not regarded by the SAI but by the private entity's auditor, which are subject to International Standards on Auditing (ISA). ISA are issued and revised by the International Auditing and Assurance Standards Board (IAASB), which is supported by the International Federation of Accountants (IFAC). Ordem dos Revisores Oficiais de Contas (OROC), the Portuguese Order of Statutory Auditors, is a member of IFAC, and exercises "jurisdiction over everything relating to the activity of statutory audit/audit of accounts and related services of companies or other entities, in accordance with prevailing auditing standards"⁴.

Through 2012 there are thirty-six ISA (see Appendix 3.1). According to ISA 200 an audit is conducted to "enhance the degree of confidence of intended users in the financial statements" which is possible by an opinion by the auditor that financial statements are prepared, "in all material respects", accordingly with a certain financial reporting framework. ISA require that the auditor gains a high level of assurance that the financial statements have no material misstatements, "whether due to fraud or error", through obtaining "sufficient appropriate audit evidence". Audit evidence, as defined in ISA 500, is all information used by the auditor to form his opinion and may be "information contained in the accounting record" or other information, and is used to reduce audit risk. This is "the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated". Auditor's opinion is addressed at the whole of financial statements and, according to ISA, detection of non material misstatements is not auditor's responsibility.

Regarding materiality, ISA 320 states that the determination of materiality is a matter of the auditor's professional judgment, and is a concept that should be applied in both planning and performing the audit phases, as well as evaluating the effect on financial statements of possible uncorrected identified misstatements. This determination is often made by the application of a percentage to a certain benchmark, depending on the characteristics of the financial statements, nature of the entity, entity's ownership structure and volatility of the benchmark. Both the percentage applicable and benchmark can vary. Performance materiality (PM), as defined by ISA 320, is the amount or amounts set below materiality to reduce the "probability that the aggregate of uncorrected and undetected misstatements exceeds

⁴ Approved by Decree-Law 487/99, of 16 November, amended by Decree-Law 224/2008, of 20 November;

materiality for the financial statements as a whole”, and can be used by the auditor to examine certain transactions, account balances or disclosures. ISA 320 considers that determination of materiality for a public sector entity is influenced by the financial information needs of legislators and the public. For this kind of entities it also states that total cost, net cost or assets (when the public sector entity has custody of public assets) may be appropriate benchmarks.

Both concepts of materiality and audit risk are necessary when assessing the Risks of Material Misstatements (RoMM). ISA 315, states that the auditor should assess RoMM at financial statement level and assertion level of transactions, account balances and disclosures. Assertions in this context can be considered as claims that “financial statements are in accordance with the applicable financial reporting framework”. ISA 315 presents three types of assertions that the auditor may consider (see Appendix 3.2): (1) assertions on transactions and events for the audit period; (2) assertions on account balances at the period end; (3) assertions on presentation and disclosure. According to this ISA, risk assessment procedures shall include management inquiries, analytical procedures and observation and inspection. Furthermore, the auditor must gain an understanding of the Entity and its environment (such as its industry, regulation applicable, ownership and governance structures, accounting policies, strategies), its control environment (such as implemented controls that are relevant for the audit), the Entity’s business risk assessment process, if it exists, and information systems in place that are relevant for the financial reporting. If a control relevant to the audit is identified, its design and implementation must be evaluated, which is evaluating if the control effectively prevents, detects and corrects material misstatements (design), and if the control exists and is used by the entity (implementation). All things considered the auditor assesses the RoMM.

To cope with the RoMM identified the auditor is advised in ISA 330 to create and perform audit procedures responsive to the risk assessed. As higher the RoMM assessed for a specific transaction, account balance or disclosure, the more persuasive audit evidence the audit shall yield. For this matter audit procedures can be divided in Test of Controls and Substantive Procedures, where the latter can be subdivided in Test of Details (TOD) and Substantive Analytical Procedures (SAP). Test of Controls objective is to evaluate the operating effectiveness of controls relevant for the audit, if they are effectively designed and implemented as discussed above. To evaluate operating effectiveness the auditor shall assess if

the misstatements detected in the test of operating effectiveness are indicative of the control not operating effectively. If no misstatements are detected the control identified is effective. These procedures shall be done if “the auditor intends to rely on the operating effectiveness of controls”, or Substantive Procedures by themselves do not provide sufficient audit evidence. Whatever the RoMM assessed to a specific transaction, account balance or disclosure, the auditor shall conduct Substantive Procedures. These procedures must include for the financial statement closing process a reconciliation between underlying accounting record and financial statements, and an examination of material journal entries and other adjustments made during the preparation of the financial statements. Substantive Procedures may include external confirmation. External confirmations are addressed in ISA 505 and meet the description of more reliable audit evidence presented in ISA 500, since audit evidence obtained from independent sources, directly by the auditor and in documentary form are more reliable. To ensure this reliability of these audit evidence the auditor shall determine information to be confirmed, select the confirming party, design requests of confirmation and send the requests. In case of non-response the auditor is required to perform alternative audit procedures.

If the auditor concludes that he needs particular skills, such as knowledge and experience in a particular field to obtain sufficient appropriate audit evidence, as stated in ISA 620, he may involve auditor’s experts. If he concludes favorably about the competence, capabilities and objectivity of the latter he may pursue with the involvement. ISA 620 gives some examples where auditor’s experts may be involved, such as: interpretation of contracts, analysis of complex or unusual tax compliance issues and valuation of complex financial instruments.

According to ISA 450, “the auditor shall accumulate misstatements identified during audit, other than those that are clearly trivial”, defining a misstatement a difference between what should be reported for a specific transaction, account balance or disclosure and what is in fact reported given a certain reporting framework. If aggregate of misstatements approaches materiality, as defined above, the auditor may revise its audit strategy. ISA 450 requires also that auditor maintain a communication with the entity management to communicate misstatements and request its correction. If they are corrected, procedures to validate that correction should be performed. If management does not correct the identified misstatements, the auditor shall evaluate if they are material, “individually or in aggregate”, if necessary communicate to those charged with governance and ultimately request written representation

from management and those charged with governance whether they consider those misstatements material or not.

In order to perform all of the above it is necessary to plan an effective audit. ISA 300 underlines the activities the auditor shall conduct. First meet the requirements of “Agreeing the Terms of Audit Engagements” and “Quality Control for an Audit of Financial Statements”, ISA 210 and ISA 220, respectively. The audit strategy established shall, among others, describe the risk assessment procedures that are planned, substantive procedures at assertions level and other audit procedures needed to comply with ISA.

ISA 230 is applicable across all ISAs and refers to audit documentation. Audit documentation concerns to all working papers produced by the auditor, as well as audit evidence obtained and record of audit procedures. Appendix 3.3 outlines the audit documentation required by the ISA discussed in this chapter.

Accordingly to the audit evidence obtained and the assessment of materiality of uncorrected misstatements, the auditor is able to “form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework” (ISA 700). If the auditor concludes favorably about this statement, expresses an unmodified opinion. If the auditor is not able to obtain sufficient appropriate audit evidence or based on audit evidence cannot conclude about the inexistence of material misstatements, a modified opinion is expressed.

As referred earlier, other ISA exist and all of them are necessary to be borne in mind when engaging a financial statements’ audit. Still, from the ISA presented in this chapter, which serve as guideline for the core audit procedures to be performed, although some considerations for SOE are addressed, no relevant guidance is made on auditing companies engaged in PPP contracts. Therefore, one may conclude that, following international guidelines, an auditor as no different work to be done for a SPV entity involved in a PPP contract other than the risk assessment. Professional judgment is then of pivotal relevance when auditing PPP contracts’ SPV, since it may be the only factor of change in the audit approach of such entities.

Chapter 4: Portuguese hospital PPP – an Audit Approach

The best way to evaluate what audit approach is required and if it meets the needs of PPP's stakeholders, is to develop an audit approach according to ISA presented in the previous chapter. With that purpose general risk assessment procedures and audit methodology aspects are first outlined since they are part of the audit approach to develop. Secondly, the case of Escala Braga is considered where additional risk assessment procedures, materiality, RoMM at assertion level and substantive procedures are developed, determined, assessed and outlined based on the company's Financial Statements (FS). As FS, the form Informação Empresarial Simplificada (IES), which is an electronic delivery of accounting, fiscal and statistic, statutory information, will be used. From this form, which is of public access, one obtains the FS of the company but not all notes and annexes to FS. IES is not as complete as Annual Reports where other information relevant to stakeholders must be included. Finally, adjustments to the audit approach for other SPV entities involved in PPP contracts are discussed.

As addressed earlier hospitals constitute the second main sector where PPP arrangements have been developed in Portugal, representing 326 million Euros of all net charges in 2012 (UTAP, 2013), which is also the result of a higher number of contracts signed in this sector alongside road PPP. Furthermore, these hospitals are social hard infrastructures operating within the National Health Service for which PPP contracts have been signed. As such, public opinion in Portugal leads stakeholders' interest in such contracts to be higher than road PPP. For these reasons a hospital SPV becomes a subject of particular interest for our analysis of developing an audit approach.

4.1 – Assessing the Risks of Material Misstatements (RoMM)

As seen in the previous chapter, one must assess RoMM at assertion level of transactions, account balances and disclosures. Since for the purpose of this paper we have no access to management and accounting personnel, the suggested procedures for risk assessment in ISA will not be able to be performed. If we had access to this key personnel for the purpose of the audit, the following procedures could have been conducted to get a higher knowledge of the company and its financial statements:

- Obtain and analyze the minutes of the meetings of the Board of Directors and/or other managerial boards;

- In order to conduct the expected work to be performed by the SAI, according to the Portuguese SAI 5Ps presented above, for the valuation of the private partner performance, inquire management and/or accounting personnel, obtaining reasonable explanation for variations between budgeted/forecasted figures and real values obtained;
- Inquire management and/or accounting personnel, obtaining reasonable explanation for variations between prior and current year's transactions and account balances, validating the explanations with further supporting documentation (i.e. fluctuation of interest rates; inflation; etc.);
- Inquire management and/or other personnel on information systems in place and their impact on financial statements (i.e. accounting systems; business operation related systems; etc);
- Inquire management and/or other personnel on financial processes and controls in place that support management assertions on financial statements;
- Identify controls relevant for the audit and perform design and implementation effectiveness tests.

Other risk assessment procedures may be conducted depending on the audited companies' specificities and industry. In the particular case of a hospital like the one discussed in this paper we will outline and discuss these procedures ahead.

Although we are not able to perform these procedures, we will nonetheless be able to gain an understanding of the entity and its financial statements. Because we have no information on the control environment we assumed no controls are in place. As a consequence higher RoMM at the assertion level must be assessed, which leads to more persuasive substantive procedures being considered in our audit approach.

Related to ISA 315 we aggregated the thirteen assertions presented in Paragraphs A.124 and A.125 (see Appendix 3.2), and reached to the following five (5) assertions that will be considered to evaluate RoMM at assertion level for each Financial Statement Caption (FSC):

Figure 4.1.1 – RCOCA: Assertions considered for Audit Approach

Rights and obligations*	The entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
Completeness	All transactions and events, assets, liabilities and equity interests that should have been recorded have been recorded, and all disclosures that should have been included in the financial statements have been included.
Occurrence and Existence	Disclosed events, transactions, and other matters have occurred and pertain to the entity. Assets, liabilities, and equity interests exist.
Classification and understandability	Transactions and events have been recorded in the proper accounts, and financial information is appropriately presented and described, and disclosures are clearly expressed.
Accuracy and valuation and allocation	Amounts and other data relating to recorded transactions and events have been recorded appropriately in the correct accounting period, and are disclosed fairly and at appropriate amounts. Assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded, and are disclosed fairly and at appropriate amounts.

*Assertion applicable only to Balance Sheet Financial Statement Captions

Regarding materiality, one must consider that the higher public exposure of SPV entities involved in PPP arrangements increases the number of users of the SPV’s FS. Being the contract counterpart a SOE, and the SPV being partially paid by tax payers’ money, one may assume higher financial information needs of the FS’s users. Plus, third party expectations on the audit performed may be considered, for instance SAI may use the auditor’s opinion to their own evaluation of the PPP contract. Allying this to the complexity of the contract that the SPV is involved in, dealing with PPP leads us to consider lower materiality levels and therefore to more persuasive audit procedures to gain reasonable assurance that FS are not materially misstated.

Still, other companies not involved in PPP contracts may demonstrate higher risks, for example listed companies, that may lead the auditor to assume lower materiality levels than the ones that will be considered in this thesis. Although SPV with PPP contracts reveals its own risks, one must always bear in mind that materiality determination is a matter of professional judgment, as stated in ISA 320.

4.2 – Escala Braga (Hospital de Braga – Entidade Gestora Estabelecimento)

The Company

Escala Braga – Sociedade Gestora do Estabelecimento SA, (Company) was founded on the 2nd of February 2009 with the purpose of managing the Braga Hospital in the north of Portugal. On the 9th of February 2009 was signed between Administração Regional de Saúde do Norte IP (North Region Health Administration – public partner representative of the Portuguese State), the Company and Escala Braga - Gestora Edifício SA, the Managing Contract of the referred hospital under a PPP arrangement with term on the 31st of August 2019. Escala Braga - Gestora Edifício SA, is the company that was signed to Design, Build, Finance and Operate the hospital building for 30 years until the 8th of February 2039. This PPP arrangement may be considered as a DBFO or DBFM, DGTF (2010) considers as DBFO the managing of the building and only Operation for the managing of the hospital services. Nonetheless it is only one contract that binds the two companies.

At the end of 2012 the Company was held by José de Mello Saúde SGPS SA (60%), Hospital Cuf Infante Santo SA (20%), Hospital Cuf Descobertas SA (19,99%), Somague Itinere – Concessões e Infraestruturas SA (0,01%) and Somague Engenharia SA (0,01%).

Additional Risk Assessment Procedures

Apart from the general risk assessment procedures referred in 4.1, specific procedures should be performed to gain a greater understanding of the company and its environment. For Escala Braga the following additional risk assessment procedures should be considered:

- Inquire management and/or other personnel regarding controls in place to guarantee at least satisfactory grades in Performance Monitoring and Evaluation procedures to be performed by the public partner of the PPP arrangement as expected in clauses 53, 54 and 55 of the Management Contract. Obtain supporting documentation for fines charged to the Company, if any, by the public partner as stated in clause 112 of the Management Contract;
- Obtain half-year Activity Evaluation Report and annual Global Evaluation Report of the public partner of the PPP arrangement described in clause 53, as well as Corrective Measures Plan, if applicable, elaborated by the Company and evaluate its impact in Financial Statements;

Materiality

Although the SPV entity being audited is not considered a Public Sector Entity, considering that users of the Company's financial statements may include stakeholders of the State, as addressed in Chapter 1, one may take into consideration the issues exposed in ISA 320 regarding public sector entities whereas if considering that the hospital management was performed by a public entity one could consider total cost as a good benchmark. Since the costs of the State are imbedded in the SPV total revenue one may consider this as a good benchmark. Furthermore, the SPV entity is a for-profit organization, which leads to the use of Revenue from Sales and Services Rendered as benchmark to determine materiality. Adding to this, the tax payers that use the Company's FS may pay special attention to revenue.

Regarding the appropriateness of the percentage of the chosen benchmark (ISA 320.A7) one must consider that:

- Public exposure increases since the Company is a SPV for a PPP arrangement;
- Complexity of PPP arrangement Management Contract;
- Third party expectations on financial statements of the SPV;
- Complexity of operations related to hospitals.

These factors lead to the use of a lower percentage of the benchmark, which as seen earlier leads to higher extent of audit procedures giving response to the need for a more thorough audit approach for PPP arrangement private partners' financial statements. One may consider 1% of the benchmark as a fair materiality level.

Performance Materiality may be determined as 2/3 of the materiality, reducing this way the probability of aggregate misstatements exceeding materiality. Also as percentage of materiality we may define the Clearly Trivial Amount, as expected in ISA 450, as 5% of the materiality. Therefore:

Revenue from Sales and Services Rendered:	€121.116.214
Materiality as 1% of Benchmark:	€1.211.162
Performance Materiality as 2/3 of Materiality:	€807.441
Clearly Trivial Amount as 5% of Materiality:	€60.558

Financial Statement Captions and RoMM

Using the Company's FS available in IES, one may assess the RoMM for each financial statement caption. Depending on RoMM assessed one must evaluate the nature, timing and extent of audit procedures to perform that respond to it, as expected by ISA. Given that, as discussed earlier, for the purpose of this thesis one must consider that there are no controls over accounts, higher RoMM must be considered and more thorough substantive procedures must be outlined. Still one may differentiate between Moderate (M) and Higher (H) RoMM, since some accounts, due to its own nature, even if no controls exist do not present a considerable RoMM. The RoMM assessed at assertion level for the FSC of Escala Braga are as follows:

Figure 4.2.1 – Escala Braga FSC RoMM (RCOCA)

Financial Statement Caption	Statement Type	31-12-2012 <i>in Euros</i>	Assertions				
			R*	C	O	C	A
Sales and services rendered	Income Statement	121.116.214		H	H	-	H
Cost of goods sold	Income Statement	(43.885.233)		H	H	-	H
Selling, general and administrative expenses	Income Statement	(21.673.782)		M	M	-	M
Personnel expenses	Income Statement	(59.224.906)		H	H	-	H
Impairment expenses	Income Statement	(769.778)		H	H	-	H
Provisions (increase/decrease)	Income Statement	(709.776)		H	H	-	H
Other income	Income Statement	2.463.051		M	M	-	M
Other expenses	Income Statement	(868.724)		M	M	-	M
Depreciation and amortization - PPE	Income Statement	(4.320.780)		M	M	-	M
Depreciation and amortization - Intangibles	Income Statement	(1.500.679)		H	H	-	H
Interest income	Income Statement	8.965					
Interest expenses	Income Statement	(835.785)		H	H	-	H
Income tax expense	Income Statement	(131.915)		M	M	-	M
Property, plant and equipment	Balance Sheet	20.580.075	M	M	M	M	M
Intangible assets	Balance Sheet	7.010.282	H	H	H	H	H
Investments – other methods	Balance Sheet	17.500	M	M	M	-	M
Investments	Balance Sheet	6.129.201	M	M	M	-	M
Inventories	Balance Sheet	2.232.514	-	H	H	-	H
Trade and other receivables	Balance Sheet	8.613.324	-	H	H	-	H
Other receivables - Accrued income	Balance Sheet	16.266.809	-	H	H		H
Deferred assets	Balance Sheet	167.672					
Cash and cash equivalents	Balance Sheet	1.209.611	-	H	H	-	H
Share capital	Balance Sheet	(4.000.000)	-	M	M	-	M
Other equity	Balance Sheet	(21.000.000)	-	M	M	-	M
Other reserves	Balance Sheet	11.178	-	M	M	-	M
Retained losses	Balance Sheet	42.698.978	-	M	M	-	M
Profit/(loss) for the period	Balance Sheet	10.333.127	-	M	M	-	M
Provisions	Balance Sheet	(1.075.050)	-	H	H	-	H
Long-term debt	Balance Sheet	(18.813.976)	-	H	H	-	H

Financial Statement Caption	Statement Type	31-12-2012 in Euros	Assertions				
			R*	C	O	C	A
Trade and other payables	Balance Sheet	(50.880.375)	-	H	H	-	H
State and other public entities	Balance Sheet	(1.936.758)	-	M	M	-	M
Short-term debt	Balance Sheet	(2.500.000)	-	H	H	-	H
Other payables - Accrued expenses	Balance Sheet	(10.950.328)	-	H	H	-	H
Other payables	Balance Sheet	(4.067.742)	-	H	H	-	H
Deferred liabilities	Balance Sheet	(46.041)					

*Assertion applicable only to Balance Sheet Financial Statement Captions

Substantive Procedures

Through the FS of the Company, one is able to group several FSC that are related to each other and present similarities in RoMM assessment, for which audit procedures validate the assertions presented above and mitigate the RoMM (see Appendix 4.1). Here we briefly explain the audit procedures to be conducted for each FSC Group.

Tangible Assets, Depreciation and Amortization

To assess the correctness of the balances presented as tangible assets one may start by elaborating the tangible assets roll-forward, reconciling opening balances to closing balances through additions, disposals and transfers. As follows:

Figure 4.2.2 – Tangible Assets Roll-Forward

	Opening Balance	Additions	Disposals	Transfers	Closing Balance
Buildings	1.997.428	220.727	-	-	2.218.155
Basic Equipment	19.488.429	447.907	-	4.478.522	24.414.858
Administrative Equipment	2.006.125	53.752	-	-	2.059.877
Tangible Assets in Development	4.834.940	247.042	-	(4.478.522)	603.461
Sub-total:	28.326.922	969.428	-	-	29.296.351
Buildings Depreciation	(130.074)	(261.987)	-	-	(392.061)
Basic Equipment Depreciation	(3.627.527)	(3.587.154)	-	-	(7.214.682)
Administrative Equipment Depreciation	(637.894)	(471.639)	-	-	(1.109.533)
Sub-total:	(4.395.495)	(4.320.780)*	-	-	(8.716.276)
Total net value:	23.931.427				20.580.075*

*As stated in the FS

To guarantee that transactions occurring during the period are correct, one may also validate both additions and disposals through vouching of invoices received and issued, respectively. In the additions procedure it is required to evaluate if the items being purchased may be regarded as tangible asset according to the accounting framework in place. As for disposals, gains or losses from those operations shall also be computed and validated, including if the appropriate accounts are being used.

The roll-forward described also includes depreciation accounts, with which the net value of tangible assets is yield. The transactions during the period not only include new depreciations from additions and annulated depreciations from disposal and write-offs, but also depreciations from items recorded as tangible assets from last period. To evaluate these depreciations and its computation one may compute the depreciation from the period and compare it with the amounts recorded in general ledger and financial statements.

Apart from the accounting records validation, one is also required to validate if the items being recorded, especially in the case of land and buildings, are actually Company's property. To do so one may obtain the real estate register (Registo Predial in Portugal) and cross check items in this register and items recorded in financial statements.

Finally, to guarantee that tangible assets are covered by insurance policies one may obtain all insurance policies of the Company and compare gross and net value of tangible assets with the covered values presented in insurance policies, yielding a coverage rate.

Intangible Assets, Depreciation and Amortization

First one must gain an understanding of what intangibles, other than the concession of the PPP, are registered in these accounts and perform a roll-forward for the period in analysis evidencing additions, disposal and transfers both for gross value and depreciation accounts, as follows:

Figure 4.2.3 – Intangible Assets Roll-Forward

	Opening Balance	Additions	Disposals	Transfers	Closing Balance
Computer Software	2.250.254	180.435	-	-	2.430.689
Industrial Property	9.067.588	-	-	-	9.067.588
<i>Sub-total:</i>	<i>11.317.842</i>	<i>180.435</i>	<i>-</i>	<i>-</i>	<i>11.498.277</i>

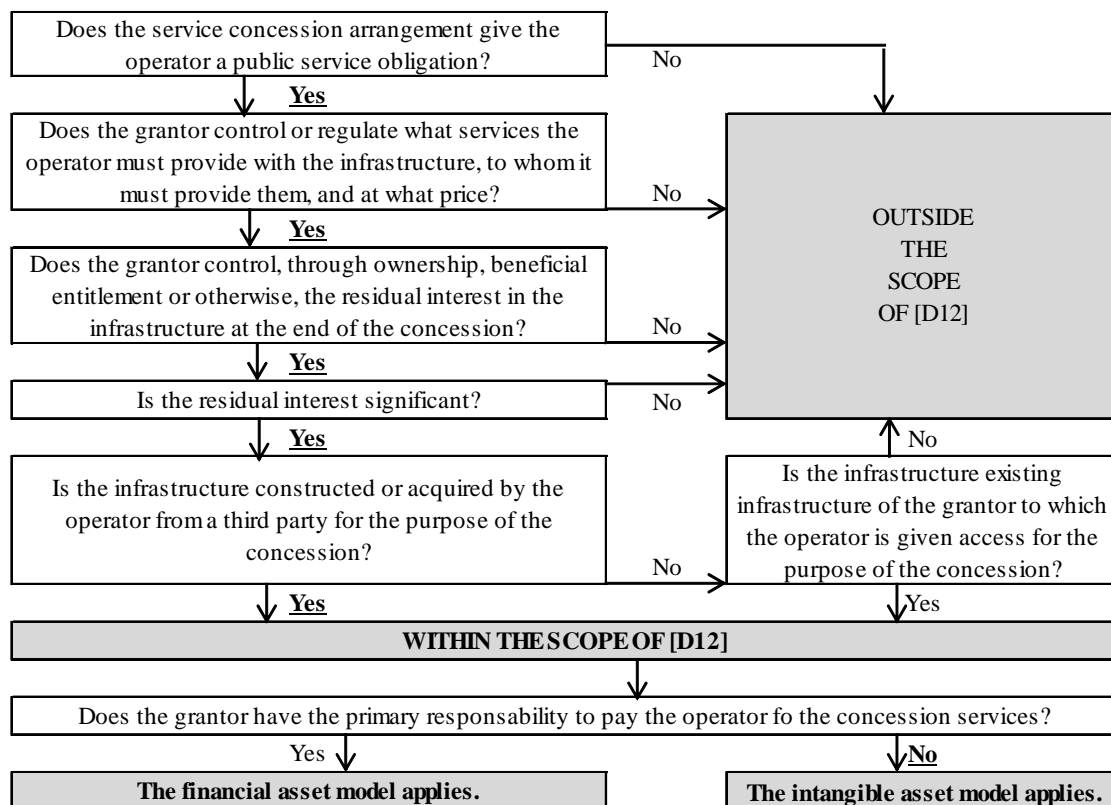
	Opening Balance	Additions	Disposals	Transfers	Closing Balance
Computer Software Depreciation	(871.545)	(593.920)	-	-	(1.465.465)
Industrial Property Depreciation	(2.115.771)	(906.759)	-	-	(3.022.530)
<i>Sub-total:</i>	<i>(2.987.316)</i>	<i>(1.500.679*)</i>	-	-	<i>(4.487.995)</i>

*Total net value: 8.330.526 7.010.282**

*As stated in the FS

Regarding the concession one may start by producing a resume of the PPP contract highlighting the main clauses in it. Next the definition of the contract as intangible asset and the recording as such may be analyzed regarding International Financial Reporting Interpretations Committee (IFRIC) 12 – Service Concession Arrangements and International Accounting Standards (IAS) 38 - Intangible Assets. For our case, and using the decision diagram presented in Appendix B of IFRIC Draft Interpretation D12, we have:

Figure 4.2.4 – IFRIC Draft Interpretation D12 Decision Diagram for Escala Braga



Given the answers (underlined) to this decision diagram, the arrangement must be recorded as intangible asset fulfilling the requirements of IAS 38, which are non-monetary assets which

are without physical substance and identifiable that must be recognized initially at cost and subsequently measured at cost or using a revaluation model, and amortized on a systematic basis.

The complexity of the contract and the use of NPV analysis may involve the work of auditor's experts, namely valuation experts, as addresses in ISA 620. One must obtain the valuation of the contract made by the company and conclude about the reasonability of the assumptions made.

Other intangibles may be analyzed adding to the roll-forward a vouching of invoices or contracts that substantiate the period additions. Also a depreciation analysis as made for tangible assets may be performed.

Inventory and Cost of Goods Sold

Count attendances are one of the best ways to validate that the items presented in inventory are correct. For this is necessary for the auditor to be present in the count attendance and evaluate effectiveness of the count itself. Count attendance may be made at period end being the inventory counted the one presented in financial statements. If the count attendance is made at any date prior to the period end roll-forward procedures to reconcile inventory counted with inventory at period end are required.

Cut-off at period end, especially if count attendance is made at period end, is also required guaranteeing that items that were bought or sold are recorded in the correct period. To do so, one may obtain invoices and delivery notes for the last purchases and sales and evaluate, according to the ownership of the products bought or services rendered (surgery involves consumption of inventory), respectively, if they are being registered in the correct period.

Still, count attendance only validates quantities in inventory, being procedures to evaluate its valuation necessary. For this a pricing procedure, where last invoices received for a specific product are vouched checking the price paid for the inventory at period end, gives the valuation of the inventory that must be recorded at the purchase. Nonetheless, after period end the Company may be selling some products below cost and so that inventory should not be recorded by the cost but at lower amounts. To cope with this, sales after period end may be vouched checking the price charged to costumers for certain products (or valuation of

products within services rendered) and yielding the net realizable value that is the one that an item in these conditions should be valued at period end.

Relating Income Statement accounts, a reasonability of Costs of Goods Sold (COGS) is necessary, where one may use the formula of COGS to verify its value. Given that beginning inventory was audited in previous years and period end inventory is validated by the procedures described above, one only needs the inventory purchases value to compute COGS with the following formula:

$$\text{COGS} = \text{Beginning Inventory} + \text{Inventory Purchases} - \text{End Inventory}$$

For our case:

$$\text{COGS} = 0 + 46.117.747,47 - 2.232.514,26^* = 43.885.233,21^*$$

*As stated in the FS

Financial Investments

Inquiring management on what financial investments are recorded is necessary. After knowing what financial holdings the Company possesses, supporting documentation of that possession is necessary alongside with contracts that support the recorded value on the financial statements. Furthermore, analyzing those financial holdings consolidation in the company and characterizing each of the financial statements, as addressed in IAS 27 and 28 respectively, is necessary. Fair value analysis may also be conducted.

Trade Receivables, Sales and Services Rendered

Regarding trade receivables' balances, one may gather external confirmations from clients, selecting them from clients' ledger that initially must be reconciled with the general ledger. When obtaining confirmations from clients one must verify if they concur with the balances presented in the ledgers referred and if not reconciliation procedures are needed. One may not only gather reconciliation but also gain an understanding of the nature of the difference occurred to start with, since it may lead to further adjustments to account balances. If conducted in a different period than period end, roll-forward procedures must be done. For no-replies, alternative procedures to validate balances, as gathering supporting documentation for services rendered that result in trade receivables, must be done.

Concerning Sales and Services Rendered the PPP contract signed by the Company with the public partner outline the remuneration that the first will be entitled to. Clinical services rendered, specific hospital services availability, adjustments for Hospital de Braga drug prescriptions bought in community pharmacies and deductions due to private partner's performance are the four components established in 44th clause, paragraph 3 of the referred contract. Different procedures may be conducted to validate revenue coming from these four components. For the availability fee the value is supported by the contract itself, being necessary to compute the update of the fee according to the same contract.

One may evaluate the existence of bad debts by analyzing clients ageing, since long overdue invoices may indicate low recoverability of trade receivables' balances. Other impairment indicators must be also considered, for instance bankruptcy of a certain client, so the need for write-off of these balances may be discussed with management. One must obtain significant supporting documentation for management intention of not adjusting balances that from the analysis conducted seem to present impairment indicators.

To complete this FSC Group analysis, one may obtain credit notes issued after period end to conclude if revenue registered is being annulated shortly after, which may lead to the conclusion that adjustments to revenue at period end may be considered.

Cash and Cash Equivalents

To validate cash, one may assist cash counts at period end matching the audited amount yielded from cash count with the general ledger. If the audit is performed after period-end and no in-time cash counts may be assisted, one may obtain cash sheets if made by the Company or assist next cash count and perform roll-back procedures validating transactions from date of cash count assistance to date being analyzed.

Regarding bank accounts, also external confirmations may be obtained, in this case from financial entities that will confirm account balances in the books of the Company with the books from the financial entity itself. Account balances between the financial entity and the Company that do not match, may be reconciled by the Company through bank reconciliation. Therefore bank reconciliation analysis may also be performed, checking the actual effectiveness of the reconciliations and inquiring about differences between the two balances. From these confirmations a list of allowed personnel to perform bank transactions may also be obtained, enabling the auditor to gain knowledge on the controls in place, since it is

possible to check if people not related to the company are allowed to make transactions. The external confirmations may also provide information regarding off-balance-sheet items such as guarantees given by the Company to other entities, which may be disclosed.

Equity

Statement of Changes in Equity is one of the elements of FS, which leads the auditor to validate it. The best way one has to do it is through re-performing the Statement itself verifying the transactions that occurred during the period in analysis, gathering audit evidence from supporting documentation of those transactions and agreeing initial and final balances with other elements of FS as balance sheet and income statement. As follows:

Figure 4.2.5 – Equity Roll-Forward

	Opening Balance	Additions	Disposals	Transfers	Closing Balance
Share capital	4.000.000	-	-	-	4.000.000*
Other equity	8.000.000	13.000.000	-	-	21.000.000*
Other reserves	(11.178)	-	-	-	(11.178)*
Retained losses	(11.897.929)	-	-	(30.801.049)	(42.698.978)*
Profit/(loss) for the period	(30.801.049)	(10.333.127)*	-	30.801.049	(10.333.127)*
Total:	(30.710.156)	2.666.873	-	-	(28.043.283)

*As stated in the FS

One must also bear in mind specific considerations regarding Equity in different countries given the legal framework, and verify if the Company is complying with that framework. In Portugal, Código das Sociedades Comerciais states minimal requirements for amounts in Legal Reserves as being 5% of Capital Stock (Article 295) and dissolution of the company if it shows loss of equity bigger than half of its Capital Stock (Article 35).

Provisions

Usually provisions are related to contingencies and claims, for which external confirmation from lawyers may be necessary. To get a full list of lawyers involved with the company one may inquire management and check for fees paid or registered in purchases to any lawyer. All lawyers ought to be addressed in order to obtain a thorough understanding of the Company's obligations, and whether provisions should be recorded.

For other provisions one must gain an understanding of their nature through inquiries, namely recording policies for provision and evaluate their recording.

Debt and Interest Expenses

Primarily, one needs to get acquainted with debt arrangements in place in the Company. All debt contracts must be analyzed and resumed in order to obtain necessary information for the procedures to develop, including covenants.

The external confirmations obtained when validating cash and cash equivalents, along with the information necessary to validate that area, may also provide the auditor with confirmation of different kinds of debt held in the financial institutions addressed in the confirmation procedure. This debt being confirmed can vary from bank loans, SWAP's fair values, leasing balances and syndicated loans, among others, all depending on the objective of the auditor. Still a scrupulous confirmation letter may be developed in order to obtain all confirmations possible.

Roll-forward procedures for debt accounts reconciling last period with period end balances, through presenting borrowings, debt payments and other transfers, validates the presentation of this FSC in the FS. Adding to this procedure one may conduct vouching analysis of both borrowings and debt payments, analyzing bank documentation regarding each transaction. Based on those movements in debt accounts one is able to calculate interest expenses for the period being audited and reconcile them with FS. Alternatively, vouching of bank's bordereaux may be used to verify interest expenses. For these two procedures, it is necessary to validate interest expenses accrual.

Trade Payables and Purchases

Obtaining a Suppliers Ledger provides an overview of trade payables open items. One may reconcile this ledger with general ledger and FS, and then choose suppliers from which external confirmations are needed. If external confirmations obtained by the supplier do not match the balance in supplier ledger, reconciliation procedures must be done.

Regarding purchases, the main accounts may be analyzed through vouching of suppliers' invoices. In the case of subcontracts compliance with conditions established in Clause 16 of the Management Contract, that addresses subcontracting requirements, must be checked. One must verify if the items or services invoiced may be registered in the accounting period being

analyzed, confirming cut-off of operations, if not what amounts should be deferred. In the case that invoices and/or other contracts do not support all period in analysis one may discuss with management the need for accrual. Apart from the cost accounts analysis differed and accrued balances should be validated inquiring management and gaining an understanding of its correctness. Related to this, in order to perceive if other costs should be registered in the accounting period in analysis the auditor may ask invoices received after the closing date and check if costs invoiced are from that period and if they have been recorded accordingly.

Analytical review, comparing balances from the period in analysis with previous periods, may be conducted for other cost accounts not analyzed through TOD previously described.

Taxation

One of the procedures to be done is obtaining tax payment vouchers for value added taxes, corporate taxes, social security and tax retentions, agree its amounts with general ledger and financial statements and if possible verify its payment. In the Portuguese case, it is also possible to obtain no debt certificates from social security and corporate tax authorities validating that the Company has no debts in that respect.

To evaluate compliance with corporate tax, one may resort to tax specialists that in the end of their field work provide the auditor with possible contingencies to be borne in mind. When using work of audit's experts to obtain audit evidence one must refer to ISA 620 as described above.

Other Payables and Personnel Expenses

Finally, regarding personnel expenses one may begin with by obtaining the reconciliation between the payroll system and the amounts recorded in personnel expenses, as well as a detailed description of each group of amounts paid to personnel. Depending on the volume of new hires and dismissals on the year in analysis one may consider its validation. For new hires it is important to check if the information entered in the payroll system is in agreement with the contracts. As for dismissals one may obtain leave agreements to check if responsibilities of the company regarding payables (e.g. compensations, wages) are correctly recorded in financial statements. If no mistakes are identified, these procedures give reasonable assurance that using payroll is a good base for other procedures such as personnel

expenses expectation where using one month's payroll extrapolating for the whole period in analysis one gains the understanding if recorded expenses are correct or not.

The FSC of Other Payables may include the accruals of vacations, Christmas and vacation subsidies due in Portugal. As for the personnel expenses expectation, one may also use one month's payroll, preferably the last month of the period, to compute these three payables to personnel and examine if the correct amounts have been recorded in general ledger and financial statements.

Performing the substantive procedures outlined, one is able to answer the RoMM at the assertion level considered above for each Escala Braga's FSC, here are presented the assertions covered by each substantive procedure:

Figure 4.2.6 – FSC RoMM Addressed by Substantive Procedures

FSC Groups and Substantive Procedures to Perform	FSC Addressed	Assertions				
		R	C	O	C	A
<u>Tangible Assets, Depreciation and Amortization</u>						
Tangible Assets Roll-Forward (TOD)	Property, plant and equipment	-	X	X	X	X
	Depreciation and amortization - PPE		X	X		X
Additions Vouching (TOD)	Property, plant and equipment	-	X	X	X	X
Disposals Vouching (TOD)	Property, plant and equipment	-	X	X	X	X
Depreciation Analysis (SAP)	Property, plant and equipment	-	-	-	-	X
	Depreciation and amortization - PPE		-	-		X
Land and Building Ownership (TOD)	Property, plant and equipment	-	-	X	-	-
Insurance Policy Coverage (TOD)	Property, plant and equipment	X	-	-	-	-
<u>Intangible Assets, Depreciation and Amortization</u>						
Intangible Assets Roll-Forward (TOD)	Intangible assets	-	X	X	X	X
	Depreciation and amortization - Intangibles		X	X		X
PPP contract summary (TOD)	Intangible assets	X	X	X	X	X
Framing PPP contract as intangible analysis (TOD)	Intangible assets	-	X	X	X	X
Valuation of PPP contract (TOD)	Intangible assets	-	X	X	-	X
Additions Vouching (TOD)	Intangible assets	-	X	X	X	X
Disposals Vouching (TOD)	Intangible assets	-	X	X	X	X
Depreciation Analysis (SAP)	Intangible assets	-	-	-	-	X
	Depreciation and amortization - Intangibles		-	-		X

FSC Groups and Substantive Procedures to Perform	FSC Addressed	Assertions				
		R	C	O	C	A
<u>Inventory and Cost of Goods Sold</u>						
Count attendance (TOD)	Inventories		-	X		-
Roll-forward procedures (TOD)	Inventories		X	X		X
Cut-off (TOD)	Inventories		X	X		-
Pricing (TOD)	Inventories		-	-		X
Netting (TOD)	Inventories		-	-		X
Costs of goods sold (SAP)	Cost of goods sold		X	X		X
<u>Financial Investments</u>						
Contract analysis (TOD)	Investments – other methods		X	X	X	X
	Investments		X	X	X	X
Fair value of Financial Investments (TOD)	Investments – other methods		-	X	X	X
	Investments		-	X	X	X
<u>Trade Receivables, Sales and Services Rendered</u>						
Reconciliation of general and client ledger (TOD)	Trade and other receivables		X	X		-
External Confirmations (TOD)	Trade and other receivables		-	X		X
Roll-forward procedures (TOD)	Trade and other receivables		-	X		X
Alternative procedures for trade receivables (TOD)	Trade and other receivables		-	X		X
Clinical services rendered (TOD)	Sales and services rendered		X	X		X
	Other receivables - Accrued income		X	X		X
Specific hospital services availability (TOD)	Sales and services rendered		X	X		X
	Other receivables - Accrued income		X	X		X
Adjustments for Hospital de Braga drug prescriptions bought in community pharmacies (TOD)	Sales and services rendered		X	X		X
	Other receivables - Accrued income		X	X		X
Deductions due to private partner's performance (TOD)	Sales and services rendered		X	X		X
	Other receivables - Accrued income		X	X		X
Clients Ageing and Bad Debts (TOD)	Trade and other receivables		-	-		X
	Impairment expenses		-	-		X
Credit notes (TOD)	Trade and other receivables		-	X		X
	Sales and services rendered		-	X		X
	Other income		-	X		X
<u>Cash and Cash Equivalents</u>						
Cash Sheets (TOD)	Cash and cash equivalents		X	X		X
External Confirmations (TOD)	Cash and cash equivalents		X	X		X
Bank Reconciliations (TOD)	Cash and cash equivalents		X	X		X
Bank transactions authorized personnel analysis (TOD)	Cash and cash equivalents		-	-		X

FSC Groups and Substantive Procedures to Perform	FSC Addressed	Assertions				
		R	C	O	C	A
<u>Equity</u>						
Roll-forward (TOD)	Share capital		X	X		X
	Other equity		X	X		X
	Other reserves		X	X		X
	Retained losses		X	X		X
	Profit/(loss) for the period		X	X		X
<u>Provisions</u>						
External Confirmations (TOD)	Provisions		X	X		X
	Provisions (increase/decrease)		X	X		X
<u>Debt and Interest Expenses</u>						
Summary of financing contracts in place (TOD)	Short-term debt		X	X		X
	Long-term debt		X	X		X
Debt roll-forward (TOD)	Short-term debt		X	X		X
	Long-term debt		X	X		X
	Interest expenses		X	X		X
Vouch borrowings and debt payments (TOD)	Short-term debt		X	X		X
	Long-term debt		X	X		X
	Interest expenses		X	X		X
Interest expense computation (TOD/SAP)	Interest expenses		X	X		X
<u>Trade Payables and Purchases</u>						
Reconciliation of general and client ledger (TOD)	Trade and other payables		X	X		-
	Other payables		X	X		-
External Confirmations (TOD)	Trade and other payables		X	X		X
	Other payables		X	X		X
Purchases vouching (TOD)	Selling, general and administrative expenses		X	X		X
	Other expenses		X	X		X
Unrecorded liabilities (TOD)	Trade and other payables		X	-		X
	Other payables - Accrued expenses		X	-		X
Purchases analytical review (TOD)	Selling, general and administrative expenses		X	X		X
	Other expenses		X	X		X
<u>Taxation</u>						
Compliance with corporate tax (TOD)	State and other public entities		X	X		X
	Income tax expense		X	X		X
Tax payment vouchers (TOD)	State and other public entities		X	X		X
	Income tax expense		X	X		X

FSC Groups and Substantive Procedures to Perform	FSC Addressed	Assertions				
		R	C	O	C	A
<u>Other Payables and Personnel Expenses</u>						
Reconciliation payroll vs accounting (TOD)	Personnel expenses		X	X		-
New employees (TOD)	Personnel expenses		X	X		X
Dismissals (TOD)	Personnel expenses		X	X		X
Personnel expenses expectation (SAP)	Personnel expenses		X	X		X
Accruals of vacations, Christmas and vacation subsidies (SAP)	Personnel expenses		X	X		X

4.3 – Considerations for other PPP SPV entities

As we can see, most of the procedures outlined in 4.2 may also be considered and performed for other entities involved or not in PPP arrangements. This happens because the FS structure is similar from company to company. What most differs from one to another may be the risk assessment procedures conducted and determination of materiality assumptions, which lead to more or less persuasive audit work to be done. Regarding substantive procedures, several of them may be designed according to the company being audited and information that may be obtained in each case. Some of the information can only be obtained assessing the companies' personnel and accounting records. Following are presented some considerations to bear in mind when auditing other SPV entities resulting from PPP arrangements, focusing on other types of PPP arrangements in Portugal, rather than hospital.

Risk assessment

Since different PPP arrangements are made in different sectors, the risk assessment procedures may differ from company to company. Legal framework may vary and must be accounted for. The understanding of the entity may be more difficult to realize in certain sector and more risk assessment procedures must be done. Also, if a company has a lot of controls implemented, risk assessment procedures may be more time consuming in such a company than in other where no or little controls exist. For example a PPP arrangement that is more complex than the other may lead a company to implement more controls and therefore the auditor is required to understand which of them are relevant to the audit and perform, as addressed in Chapter 3, tests of design and implementation.

Materiality and RoMM

As seen before, other PPP arrangements in Portugal involve road concessionaries, which represent a large part of all arrangements, and building management companies as Escala Braga - Gestora Edifício SA, involved in the PPP arrangement analyzed in this thesis. Still, since both road and building assets are incorporated in the PPP contract and therefore not registered as tangible assets, one may maintain the use of total revenues as a benchmark for these companies. Once again, one must not forget that materiality determination is a matter of professional judgment. This is also true for the assessment of RoMM, still different accounts and different company's reality may lead to RoMM being lower or higher in a given company.

Chapter 5: Discussion

As we saw in the previous chapters an audit approach designed in accordance with the requirements of ISA, although some of its characteristic may change according to the professional judgment of the auditor, yields a thorough audit to the FS of the private partner (SPV entity) involved in a PPP arrangement. This may be, as seen earlier, one area of the PPP arrangement that is not covered by the SAI. Furthermore, one may argue that the private auditor has more information on the PPP arrangement than the SAI, since it has access to information inside the SPV entity that may not be disclosed to SAI and all public information about the PPP arrangement that is published whether by the State or SAI itself. This higher overall knowledge by the private entity auditor is even more unmistakable when the same entity performs audit work to the public and private entity on the same PPP arrangement.

Despite this, one must bear in mind that the SAI does not perform statutory audit work on the SOE, but of the State itself. This way, although one may have access to more information than the other, given the scope of SAI and statutory auditor, the work performed by the two entities complement itself making it possible to obtain a full overview of the PPP arrangement as a whole if that information was combined. Considering this potential and the very nature of the two entities one never may consider one of them as obsolete.

Given this, it is not a question of a PPP arrangement being sufficiently targeted by audit, but more if the information yielding from those audits is being disseminated to all of its stakeholders. Especially when considering the possibility of giving further knowledge to the stakeholder when combining both works. One may argue that tax-payers are State's stakeholders and not of the SPV entity, and therefore no change in legislation is required, still the disclosure of FS and Auditor's Opinion on those statements could grant higher transparency to PPP arrangements' discussion. Also a more transparent audit report, as has been advocated by UK's Competition Commission and some audit firms⁵, if implemented for PPP arrangements in Portugal may lead to a better understanding of the PPP arrangement. Furthermore, since no specific disclosures are required for a private entity's financial statements when involved in contracts with the State, no information is available for stakeholders on how State's assets are being managed. This was also one limitation of our

⁵ Deloitte's "Governance in brief – Audit reports to be more informative" refers that changes made to the UK Corporate Governance Code in autumn 2012 lead to several changes in auditors reports that "will help shareholders understand the complexity of the judgments underlying annual financial statements and the challenge of these by the independent auditors";

work, since IES only provides some information and access to annual reports is not facilitated. That leads us to conclude that the disclosure of annual reports should be mandatory, so the needs of the State's stakeholders may be met and all information on the PPP arrangement becomes available. An argument may be, as well, the fact that disclosure of that information, when the SPV entity is yielding high net income margins, would lead to a continuing discussion whether the payment schemes were well developed and if the State is being harmed by such contracts. Still, to tackle this issue one must bear in mind that VfM is not comparing net charges paid by the State with Net Income of the SPV but with the PSC. Nonetheless, prior year financial audit or prior PPP financial statements audit may enable the State to set more reasonable paying schemes on future PPP arrangements or renegotiations of these arrangements, since high margins resulting to the private partner may indicate higher efficiency than expected in the base study and the possibility of limiting those margins exists. Lowering the payments by the State to the private partner will result in a higher VfM.

We focused on an approach to audit accounts in a FS of the SPV entity created for a certain PPP arrangement. This work was limited by the lack of knowledge of the analyzed entities' control environment, which led to a higher RoMM considered and to more robust substantive procedures designed. A greater knowledge of control environment, existence of relevant controls, testing those controls and effectiveness assessment for design and implementation, could lead to an audit approach considering Tests of Controls that may reduce substantive procedures performed.

One may design an audit approach based on the substantive procedures as suggested in Chapter 4, still to perform those tests one needs access to accounting records and supporting documentation. Furthermore, after performing those substantive procedures and accordingly to the conclusions obtained by them one may be required to perform additional audit procedures, whether substantive procedures or inquiries to management and accounting personnel, to obtain a reasonable assurance that FS have no material misstatements.

Another limitation of the audit approach designed is the use of auditor's professional judgment, since experienced auditors given their expertise and further knowledge of audit and audit risks, would be able to reach better designed audit approaches that meet more effectively the objectives of the audit. Still, several aspects of an audit are function of professional judgment and assessments of benchmarks, materiality and RoMM, for instance, may vary. Regarding materiality, one must bear in mind the fact that materiality in the whole FS of a

company may lead to some of the accounts not being analyzed, since the auditor's opinion is on FS as a whole. It is also useful to outline that the audit approach designed and the work of the external auditor to the SPV's FS do not intend, and it is not part of its requirements, to evaluate if the PPP arrangement is damaging the State position or not. As stated the SPV is treated as a regular privately held company that requires external audit by a Statutory Auditor.

Chapter 6: Conclusion

With the escalation of the number of PPP arrangements and consequent expenses to the Portuguese State and its tax payers, one may question why the use of such arrangements and how were they developed. Furthermore, one may inquire what oversight controls exist over the elaboration of such arrangements, the contracting of such arrangements and evaluation of the arrangements after they are in place.

The “state owned” part of the contract is validated by the SAI, Tribunal de Contas in Portugal, which are guided by INTOSAI. But in this thesis we strived to look at the other partner and figure out what oversight exists to their FS and what kind of audit approach is required and may be conducted for such a company.

By analyzing the ISA, issued and revised by the IAASB, and adopted by OROC, the Portuguese Order of Statutory Auditors, one may conclude that no specific considerations are necessary for a company involved in a PPP arrangement. Furthermore, no local legislation requires from these companies any different kind of disclosures of financial information to general public. Given this, the treatment of an SPV involved in a PPP arrangement is statutorily the same as any other privately owned company. This conclusion was also validated through peer discussion of auditors involved in PPP’s SPVs’ statutory audits.

Nonetheless, the audit approach considered by the external auditor may incorporate several specificities, mainly in risk assessment and materiality determination, as presented in the audit approach suggested in this thesis for the case of Escala Braga. These specificities include considering:

- Higher exposure of the Company, since it is a SPV for a PPP arrangement;
- The complexity of the PPP arrangement Management Contract;
- Third party expectations on financial statements of the SPV;
- Complexity of operations related to hospitals.

These considerations lead to a lower level of materiality and more persuasive audit procedures to be performed. Still, these may not be considered by other auditor given their professional judgment.

We may conclude that, although the Auditor's Opinion is based on thorough work and, given that an unmodified opinion is issued, the FS do not present material misstatements, the fact that PPP's SPV's Annual Reports are not easily available is not contributing to the transparency of PPP contracts in Portugal. Furthermore, to meet the transparency required by State's stakeholder regarding these arrangements, legislation should be set in place for mandatory disclosure of annual reports and more thorough audit reports by the SPV's auditor may be issued.

References

- ATKINS – European Bank for Reconstruction and Development (2005), *Update in Best International Practices in Public Private Partnerships with regard to Regional Policy Issues*
- Comptroller & Auditor General of India (CAGI) (2009), *Public Private Partnerships (PPP) in Infrastructure Projects – Public Auditing Guidelines, Comptroller & Auditor General of India*
- Deloitte (2013), *Governance in brief – Audit reports to be more informative*
- Direcção-Geral do Tesouro e Finanças (2010), *Ficha Sintética e de Identificação - Contrato de Gestão do Hospital de Braga - Entidade Gestora do Edifício*
- Direcção-Geral do Tesouro e Finanças (2010), *Ficha Sintética e de Identificação - Contrato de Gestão do Hospital de Braga - Entidade Gestora do Estabelecimento*
- Direcção-Geral do Tesouro e Finanças (2012), *Parcerias Público Privadas e Concessões Relatório 2012*
- Ernst & Young (2012), *Estudo de 36 Contractos de Parcerias Público Privadas do Estado Português, Hospital de Braga – Entidade Gestora do Estabelecimento*
- Grimsey, Darrin, and Mervyn Lewis (2004), *Public private partnerships: The worldwide revolution in infrastructure provision and project finance*, Edward Elgar, Cheltenham, Northampton, MA.
- Humpherson, Ed (2012), “The National Audit Office’s role in Complex Infrastructure Procurement”, *The role of Supreme Audit Institutions with Regards to Complex Infrastructure Procurement presentation at the 5th annual OECD meeting on Public-Private Partnerships*
- IFRIC (2005), *IFRIC Draft Interpretation D12 Service Concession Arrangements – Determining the Accounting Model*
- INTOSAI (2004), *ISSAI 5240 - Guideline on Best Practice for the Audit of Risk in Public/Private Partnership (PPP)*, INTOSAI
- Lendrum, T. (1997), *The Strategic Partnering Handbook, A Practice Guide for Managers*, McGraw-Hill, Nook Company
- Minow, Martha (2003), “Public and Private Partnerships - Accounting for the New Religion”, *Harvard Law Review* 116 - 1229

- Monteiro, Rui Sousa (2010), “PPP hospitals and the Portuguese experience”, *Best Practice UNECE PPP Newsletter*, Issue 3
- OECD (2008), *Public Private Partnership: In Pursuit of Risk Sharing and value For Money*
- Portugal and the IMF (2011), *Portugal: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding*
- Sarmiento, Joaquim Miranda (2010), *Do Public-Private Partnerships Create Value for Money for the Public Sector? The Portuguese Experience*, OECD Journal on Budgeting Volume 2010/1
- Sousa, Mariana Abrantes de (2011), *Managing PPPs for Budget Sustainability – The case of PPPs in Portugal, from problems to solutions*, PPP Lusofonia, Portugal
- Tribunal de Contas (2008), *Linhas de Orientação (Guide Lines) e Procedimentos para o desenvolvimento de Auditorias Externas a PPP*
- Tribunal de Contas da União (TCU), *Pareceria Público-Privada* (http://portal2.tcu.gov.br/portal/page/portal/TCU/comunidades/regulacao/Parceria_P%C3%BAblico_Privada_Portal_web.pdf)
- US National Council for Public-Private Partnerships (2012), *Assessing the Added Value of Public-Private Partnerships*
- UTAP - Unidade Técnica de Acompanhamento de Projectos (2013) , *Boletim Trimestral PPP – 4º Trimestre de 2012*
- Yescombe, E.R. (2007), *Public Private Partnerships: Principles of Policy and Finance*, Elsevier Finance, London, UK

Other:

- Código das Sociedades Comerciais
- Decree-Law nº 86/2003 “Diário da República Série A” 97 (03-04-26) 2682
- Decree-Law nº 487/99 “Diário da República Série A” 267 (99-11-16) 8057
- Informação Empresarial Simplificada (IES) of Escala Braga – Sociedade Gestora do Estabelecimento SA
- Contrato de Gestão (Management Contract) Hospital de Braga em Regime de Parceria Público-Privada

- International Accounting Standards (IAS 27,28 and 38)
- International Financial Reporting Interpretations Committee (IFRIC 12)
- International Standards of Supreme Audit Institutions (ISSAI 5220 and ISSAI 5240)
- International Standards on Auditing (ISA)

Appendices

Appendix 1.1 – List of Portuguese Public-Private Partnerships in management phase (through 2012)

<i>Concession Description</i>	<i>Private Partner</i>	<i>Type</i>	<i>Starting date</i>	<i>Term</i>	<i>Investment* M€</i>
Concessão Lusoponte	Lusoponte, SA	road	1995	30	867
Concessão Norte	Ascendi Norte – Auto Estradas do Norte, SA	road	1999	30	879,2
Concessão Oeste	Auto-Estradas do Atlântico, SA	road	1999	30	453,5
Concessão Brisa	BRISA-Auto-Estradas de Portugal	road	2000	35	2623,8
Concessão Litoral Centro	Brisal - Auto-estradas do Litoral, SA	road	2004	30	550,7
Concessão Beira Interior	ScutVias - Auto-estradas da Beira Interior, SA	road	1999	30	628,3
Concessão Costa de Prata	Ascendi Costa de Prata - Auto-estradas da Costa da Prata, SA	road	2000	30	320,7
Concessão do Algarve	EuroScut - Sociedade Concessionária da SCUT do Algarve, SA	road	2000	30	228,5
Concessão Interior Norte	NorScut - Concessionária de Auto-Estradas SA	road	2000	30	504,1
Concessão Beiras Litoral e Alta	Ascendi Beiras Litoral e Alta - Auto-estradas das Beiras Litoral e Alta, SA	road	2001	30	718,4
Concessão Norte Litoral	EuroScut Norte - Sociedade Concessionária da SCUT do Norte Litoral, SA	road	2001	30	318,6
Concessão Grande Porto	Ascendi Grande Porto - Auto-estradas do Grande Porto, SA	road	2002	30	492,5
Concessão Grande Lisboa	Ascendi Grande Lisboa – Auto Estradas da Grande Lisboa, SA	road	2007	30	180
Metro Sul Tejo	MTS - Metro Transportes do Sul, SA	railway	2002	30	268,7
Transp. Ferroviário eixo-norte/sul	Fertagus, SA	railway	1999	11+9	900 (**)
Concessão Douro Litoral	AEDL - Auto-estradas do Douro Litoral, SA	road	2007	27	777,7
Gestão do Centro de Atendimento do SNS	LCS - Linha de Cuidados de Saúde, SA	healthcare	2006	4+2	4
Gestão Centro Medicina Física Reabilitação Sul	GP Saúde, SA	healthcare	2006	7	3
Gestão do H. Braga - Ent. Gestora Estabelecimento	Escala Braga, Gestora do Estabelecimento SA	healthcare	2009	10	11,3
Gestão do H. Braga - Ent. Gestora do Edifício	Escala Braga, SA	healthcare	2009	30	122
Gestão H. Cascais-Ent. Gestora Estabelecimento	HPP - Hospitais Privados de Portugal, SGPS, SA	healthcare	2008	10	16
Gestão H. Cascais - Ent. Gestora do Edifício	TDHOSP - Gestão de Edifício Hospitalar SA	healthcare	2008	30	56
Gestão H. Vila Franca-Ent. Gestora Estabelecimento	Escala Vila Franca - Gestora do Estabelecimento, SA	healthcare	2010	10	2,5

<i>Concession Description</i>	<i>Private Partner</i>	<i>Type</i>	<i>Starting date</i>	<i>Term</i>	<i>Investment* M€</i>
Água do Centro Alentejano	Águas do Centro Alentejano, SA	environment	2003	30	75,8
Águas do Douro e Paiva	Águas do Douro e Paiva, SA	environment	1996	30	452,7
Água do Oeste	Águas do Oeste, SA	environment	2001	30	294,8
Água do Município de Santo André	Águas de Santo André, SA	environment	2001	30	130,3
Água da Região de Trás-os-Montes e Alto Douro	Águas de Trás-os-Montes e Alto Douro, SA	environment	2001	30	418,4
Água da Região do Algarve	Águas do Algarve, SA	environment	2001	30	457,3
Águas do Centro	Águas do Centro, SA	environment	2001	30	177
Água do Mondego	Águas do Mondego, SA	environment	2004	35	232
Água do Norte Alentejano	Águas do Norte Alentejano, SA	environment	2001	30	93,8
Água do Zêzere e Côa	Águas do Zêzere e Côa, SA	environment	2000	30	286
Águas do Noreste	Águas do Noreste, SA	environment	2010	50	800
Águas Públicas do Alentejo	Águas Públicas do Alentejo, SA	environment	2010	50	224,5
Águas da Região de Aveiro	Águas da Região de Aveiro, SA	environment	2010	50	103
Resíduos Sólidos do Algarve	Algar, SA	environment	1996	25	60,7
Resíduos Sólidos da Margem Sul do Tejo	Amarsul, SA	environment	1997	25	70,1
Resíduos Sólidos do Litoral Centro	Ersuc, SA	environment	1997	25	87,7
Resinorte	Resinorte - Valorização e Tratamento Resíduos Sólidos, SA	environment	2009	30	190,8
Resistrela	Resiestrela - Valorização e Tratamento Resíduos Sólidos, SA	environment	2008	30	34,1
Resíduos Sólidos do Vale do Lima e Baixo-Cávado	Resulima, SA	environment	1996	25	31,6
Resíduos Sólidos do Sul Douro	Suldouro, SA	environment	1996	25	52,9
Resíduos Sólidos do Norte Alentejano	Valnor, SA	environment	2001	29	24,8
Resíduos Sólidos da Alta Estremadura	Valorlis, SA	environment	1996	25	31
Resíduos Sólidos do Vale do Minho	Valorminho, SA	environment	1996	25	14,1
Resíduos Sólidos de Lisboa e do Oeste	Valorsul, SA	environment	2010	25	328,5
Saneamento Costa do Estoril	Sanest, SA	environment	1995	25	201,6
Saneamento Município de Setúbal	Simarsul, SA	environment	2004	30	235,9

<i>Concession Description</i>	<i>Private Partner</i>	<i>Type</i>	<i>Starting date</i>	<i>Term</i>	<i>Investment* M€</i>
Saneamento Bacia do Rio Lis	Simlis, SA	environment	2000	30	75
Saneamento Ria de Aveiro	Simria, SA	environment	2000	30	313,7
Saneamento na Foz do Tejo e Trancão	Simtejo, SA	environment	2001	30	536,3
Simdouro	Simdouro - Saneamento do Grande Porto, S. A	environment	2009	50	72
Armaz. Subterrâneo de Gás Natural (Guarda)	Transgás Armazenagem, SA	energy	2006	40	29,3
Distribuição Regional de Gás Natural (Lisboa)	Lisboagás Soc. Prod. Distrib. Gás, SA	energy	2008	40	578
Distribuição Regional de Gás Natural (Centro)	Lusitaniagás-Comp. Gás do Centro, SA	energy	2008	40	289,3
Distribuição Regional de Gás Natural (Setúbal)	Setgás - Soc. Prod. Distrib. Gás, SA	energy	2008	40	159,8
Distribuição Regional de Gás Natural (Porto)	Portgás - Soc. Prod. Distrib. Gás, SA	energy	2008	40	307,4
Armaz. Regasificação de Gás Natural (Sines)	REN Atlântico, SA	energy	2006	40	212
Armaz. Subterrâneo Gás Natural (Guarda, Pombal)	REN Armazenagem, SA	energy	2006	40	114,9
Distribuição Regional de Gás Natural (Beiras)	Beiragás-Companhia das Beiras, SA	energy	2008	40	69,2
Distribuição Regional de Gás Natural (Vale do Tejo)	Tagusgás - Empresa Gás Vale do Tejo, SA	energy	2008	40	66,5
Gestão Rede Nacional Transporte de Gás Natural	REN Gasodutos, SA	energy	2006	40	753
Rede Eléctrica Nacional	REN - Rede Eléctrica Nacional, SA	energy	2007	50	1.291,70
Exploração da Rede Nac. Distribuição de Electricidade	EDP - Distribuição Energia, SA	energy	2006	35	1.808,30
Barragem do Alqueva	EDP	energy	2008	35	339
SIRESP	SIRESP - Redes Digitais de Seg. e Emergência	security	2006	15	112

(*) Indicative value in millions Euros

(**) Investment made by REFER

NA - Information Not Available

Source: Direcção-Geral do Tesouro e Finanças

Appendix 1.2 – List of Portuguese Public-Private Partnerships in construction phase (through 2012)

<i>Concession Description</i>	<i>Private Partner</i>	<i>Type</i>	<i>Starting date</i>	<i>Term</i>	<i>Investment* M€</i>
Subconcessão Transmontana	Auto-Estradas XXI - Subconcessionária Transmontana, SA	road	2008	30	535,9
Subconcessão Douro Interior	AENOR Douro - Estradas do Douro, SA	road	2008	30	641,7
Concessão Tunel do Marão	Auto-Estradas do Marão	road	2008	30	348,2
Subconcessão Baixo Alentejo	SPER - Sociedade Portuguesa para a Construção e Exploração Rodoviária, SA	road	2009	30	381,9
Subconcessão Baixo Tejo	VBT - Vias do Baixo Tejo, SA	road	2009	30	270,1
Subconcessão Litoral Oeste	AELO - Auto-estradas do Litoral Oeste, SA	road	2009	30	443,6
Subconcessão Algarve Litoral	Rotas do Algarve Litoral, SA	road	2009	30	165,1
Subconcessão Pinhal Interior	Ascendi Pinhal Interior - Auto-estradas do Pinhal Interior, SA	road	2010	30	958,2
Concessão de Gestão Sist. Identificação Electrónico	SIEV - Sist. Id. Elect. de Veículos, SA	road	2009	25	n.a
Gestão do H. Loures - Ent. Gestora do Estabelecimento	SGHL - Soc. Gestora do Hospital de Loures, SA	healthcare	2009	10	29,3
Gestão do H. Loures - Ent. Gestora do Edifício	HL - Sociedade Gestora do Edifício, SA	healthcare	2009	30	84,6
Gestão do H. Vila Franca - Ent. Gestora do Edifício	Escala Vila Franca - Gestora do Edifício, SA	healthcare	2010	30	76
Barragem de Foz Tua	EDP	energy	2008	75	340
Barragens de Gouvães, Padreselos, Alto Tâmega, Daivões	EBERDROLA	energy	2008	65	1.700
Barragens do Fridão e Alvito	EDP	energy	2008	65	510
Barragem Baixo Sabor	EDP	energy	2008	65	257
Barragem Girabolhos	ENDESA	energy	2008	65	360
PPP1 - Poceirão - Caia	Elos - Ligações de Alta Velocidade	railway	2010	40	1339

(*) Indicative value in million Euros

Source: Direcção-Geral do Tesouro e Finanças

Appendix 3.1 – List of the 36 International Standards on Auditing (ISAs)

<i>ISA</i>	<i>Description</i>
200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing
210	Agreeing the Terms of Audit Engagements
220	Quality Control for an Audit of Financial Statements
230	Audit Documentation
240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
250	Consideration of Laws and Regulations in an Audit of Financial Statements
260	Communication with Those Charged with Governance
265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
300	Planning an Audit of Financial Statements
315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment
320	Materiality in Planning and Performing an Audit
330	The Auditor's Responses to Assessed Risks
402	Audit Considerations Relating to an Entity Using a Service Organization
450	Evaluation of Misstatements Identified during the Audit
500	Audit Evidence
501	Audit Evidence-Specific Considerations for Selected Items
505	External Confirmations
510	Initial Audit Engagements-Opening Balances
520	Analytical Procedures
530	Audit Sampling
540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
550	Related Parties
560	Subsequent Events
570	Going Concern
580	Written Representations
600	Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)
610	Using the Work of Internal Auditors
620	Using the Work of an Auditor's Expert
700	Forming an Opinion and Reporting on Financial Statements
705	Modifications to the Opinion in the Independent Auditor's Report
706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
710	Comparative Information-Corresponding Figures and Comparative Financial Statements
720	The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements
800	Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks
805	Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
810	Engagements to Report on Summary Financial Statements

Appendix 3.2 – Assertions presented on ISA 315 (Revised) (Paragraph A124 and A125)

“Assertions used by the auditor to consider the different types of potential misstatements that may occur fall into the following three categories and may take the following forms”:

<i>Assertions about</i>	<i>Assertion</i>	<i>Description</i>
classes of transactions and events for the period under audit	Occurrence	transactions and events that have been recorded have occurred and pertain to the entity
	Completeness	all transactions and events that should have been recorded have been recorded
	Accuracy	amounts and other data relating to recorded transactions and events have been recorded appropriately
	Cutoff	transactions and events have been recorded in the correct accounting period
	Classification	transactions and events have been recorded in the proper accounts
account balances at the period end	Existence	assets, liabilities, and equity interests exist
	Rights and obligations	the entity holds or controls the rights to assets, and liabilities are the obligations of the entity
	Completeness	all assets, liabilities and equity interests that should have been recorded have been recorded
	Valuation and allocation	assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded
about presentation and disclosure	Occurrence and rights and obligations	disclosed events, transactions, and other matters have occurred and pertain to the entity
	Completeness	all disclosures that should have been included in the financial statements have been included
	Classification and understandability	financial information is appropriately presented and described, and disclosures are clearly expressed
	Accuracy and valuation	financial and other information are disclosed fairly and at appropriate amounts

“The auditor may use the assertions as described above or may express them differently provided all aspects described above have been covered. For example, the auditor may choose to combine the assertions about transactions and events with the assertions about account balances”.

Appendix 3.3 – Specific Audit Documentation Requirements ISA discussed in Chapter 3

ISA	<i>The auditor shall include in the audit documentation:</i>
ISA 300	(a) The overall audit strategy; (b) The audit plan; and (c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.
ISA 315	(a) The discussion among the engagement team where required by paragraph 10, and the significant decisions reached; (b) Key elements of the understanding obtained regarding each of the aspects of the entity and its environment specified in paragraph 11 and of each of the internal control components specified in paragraphs 14– 24; the sources of information from which the understanding was obtained; and the risk assessment procedures performed; (c) The identified and assessed risks of material misstatement at the financial statement level and at the assertion level as required by paragraph 25; and (d) The risks identified, and related controls about which the auditor has obtained an understanding, as a result of the requirements in paragraphs 27–30.
ISA 320	(a) Materiality for the financial statements as a whole (see paragraph 10); (b) If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures (see paragraph 10); (c) Performance materiality (see paragraph 11); and (d) Any revision of (a)–(c) as the audit progressed (see paragraphs 12–13).
ISA 330	(a) The overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing and extent of the further audit procedures performed; (b) The linkage of those procedures with the assessed risks at the assertion level; and (c) The results of the audit procedures, including the conclusions where these are not otherwise clear.
ISA 450	(a) The amount below which misstatements would be regarded as clearly trivial (paragraph 5); (b) All misstatements accumulated during the audit and whether they have been corrected (paragraphs 5, 8 and 12); and (c) The auditor’s conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion (paragraph 11).

Other ISAs requiring specific audit documentation: ISA 210; ISA 220; ISA 240; ISA250; ISA 260; ISA 540; ISA 550; ISA 600; ISA 610.

Source: International Standard on Auditing 230 – Audit Documentation – Appendix: Specific Audit Documentation Requirements in Other ISAs

Appendix 4.1 – Financial Statement Captions and FSC Groups

Financial Statement Caption	Statement Type	FSC Group	OBS
Sales and services rendered	Income Statement	Trade Receivables, Sales and Services Rendered	
Cost of goods sold	Income Statement	Inventory and Cost of Goods Sold	
Selling, general and administrative expenses	Income Statement	Trade Payables and Purchases	
Personnel expenses	Income Statement	Other Payables and Personnel Expenses	
Impairment expenses	Income Statement	Trade Receivables, Sales and Services Rendered	
Provisions (increase/decrease)	Income Statement	Provisions	
Other income	Income Statement	Trade Receivables, Sales and Services Rendered	
Other expenses	Income Statement	Trade Payables and Purchases	
Depreciation and amortization - PPE	Income Statement	Tangible Assets, Depreciation and Amortization	(a)
Depreciation and amortization - Intangibles	Income Statement	Intangible Assets, Depreciation and Amortization	(a)
Interest income	Income Statement		(b)
Interest expenses	Income Statement	Debt and Interest Expenses	
Income tax expense	Income Statement	Taxation	
Property, plant and equipment	Balance Sheet	Tangible Assets, Depreciation and Amortization	
Intangible assets	Balance Sheet	Intangible Assets, Depreciation and Amortization	
Investments – other methods	Balance Sheet	Financial Investments	
Investments	Balance Sheet	Financial Investments	
Inventories	Balance Sheet	Inventory and Cost of Goods Sold	
Trade and other receivables	Balance Sheet	Trade Receivables, Sales and Services Rendered	
Other receivables - Accrued income	Balance Sheet	Trade Receivables, Sales and Services Rendered	
Deferred assets	Balance Sheet		(b)
Cash and cash equivalents	Balance Sheet	Cash and Cash Equivalents	
Share capital	Balance Sheet	Equity	
Other equity	Balance Sheet	Equity	
Other reserves	Balance Sheet	Equity	
Retained losses	Balance Sheet	Equity	

Financial Statement Caption	Statement Type	FSC Group	OBS
Profit/(loss) for the period	Balance Sheet	Equity	
Provisions	Balance Sheet	Provisions	
Long-term debt	Balance Sheet	Debt and Interest Expenses	
Trade and other payables	Balance Sheet	Trade Payables and Purchases	
State and other public entities	Balance Sheet	Taxation	
Short-term debt	Balance Sheet	Debt and Interest Expenses	
Other payables - Accrued expenses	Balance Sheet	Other Payables and Personnel Expenses	(a)
Other payables	Balance Sheet	Trade Payables and Purchases	(a)
Deferred liabilities	Balance Sheet		(b)

(a) These accounts are partitions of the original FSC;

(b) These accounts will not be considered for the audit approach since no RoMM is assessed;