



# Outsourcing public tasks, new ways of financing – the challenges facing external auditors

## Introduction to the subject of the congress

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# Initial status (1)

## Statement by the OECD in 2004:

« Most OECD countries have been creating non-commercial bodies outside the core public service on an ad hoc basis, resulting in an administrative <zoo>. This reduces transparency of government for the citizen, and may compromise oversight and accountability within government. »

# Initial status(2)

## Parliamentary interventions

- 1996: How is Parliament's supervision of privatization and outsourcing guaranteed and what are the competencies of the SFAO
- 2004: Administrative management in the third circle – public law institutions
- 2005: Four-circle model – coherent steering of units gone independent

# Tyology of tasks (1)

## Government report on outsourcing and steering federal tasks of 13 September 2006

- Future outsourcing are to be carried out systematically and according to standard criteria.
- Steering of units turned independent is to be optimized and standardized.

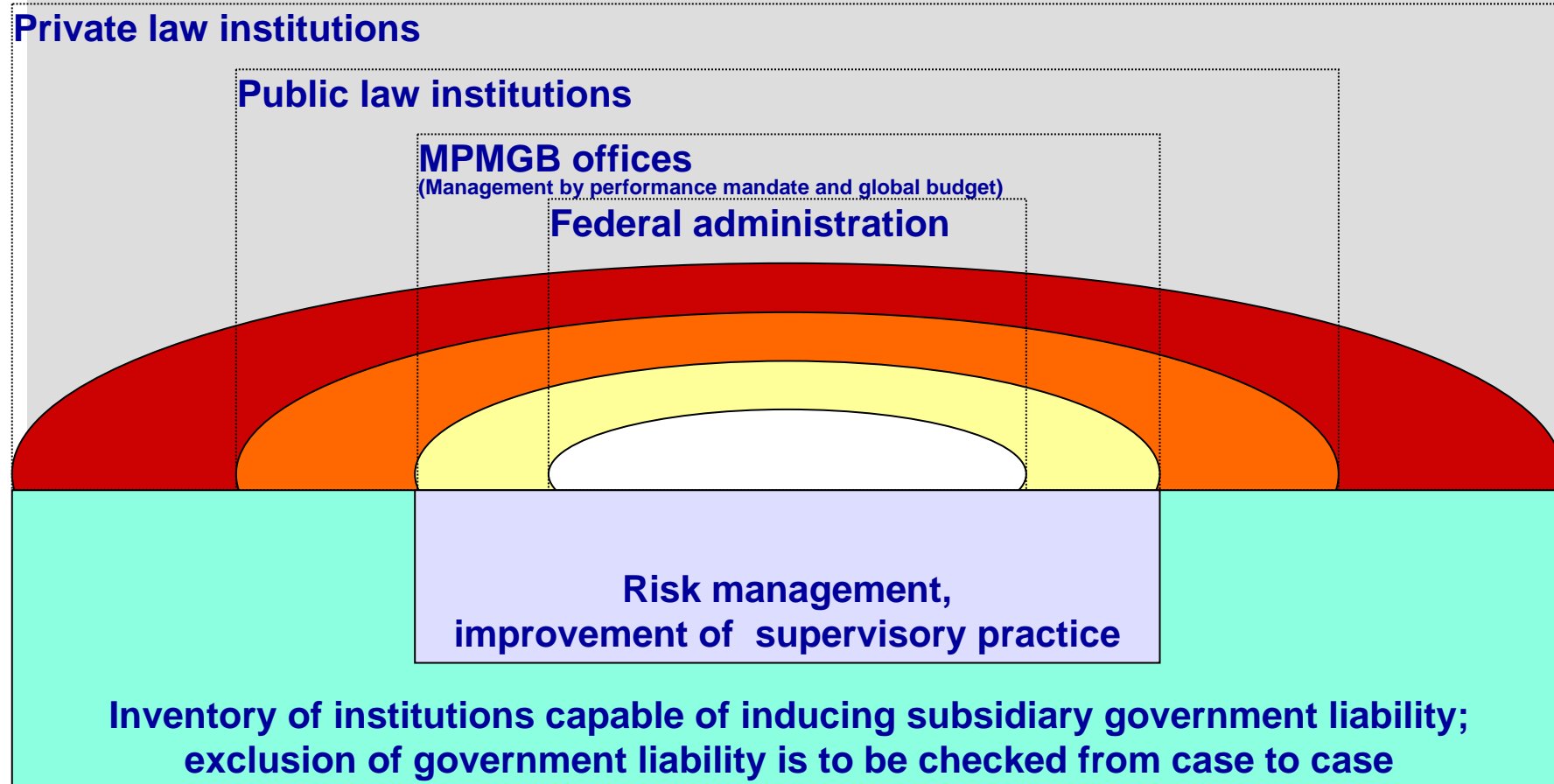
# Tyology of tasks (2)

## Reasons for outsourcing

- To ensure marketability and competitiveness
- Adaption to developments abroad (liberalization of markets)
- To increase orientation towards the requirements of economy
- To increase entrepreneurial autonomy
- To improve efficiency

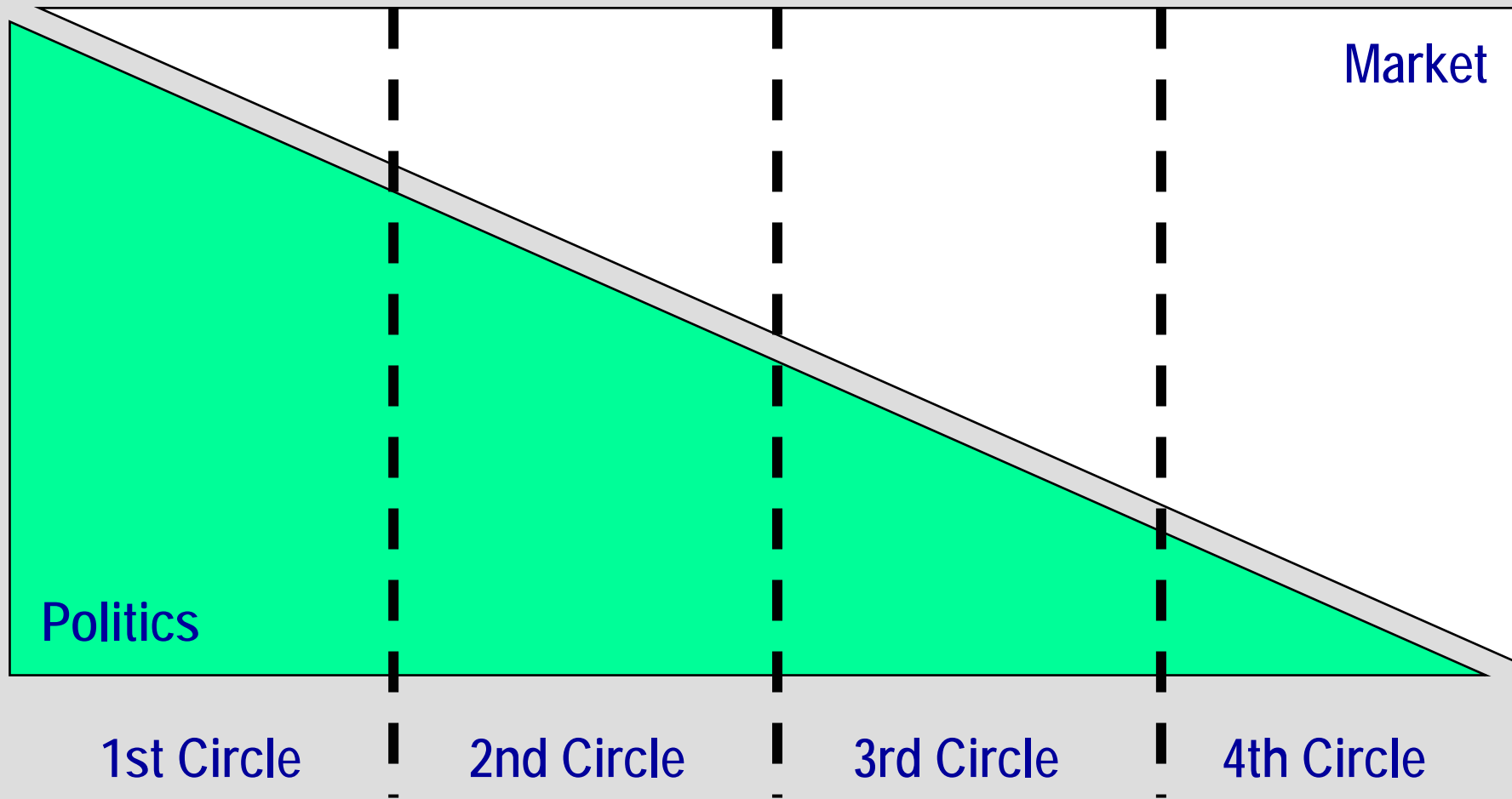
# Tyology of tasks (3)

## *The Four-Circle Model of Federal Administration*



# Tyology of tasks (4)

## *Politics versus market*





# Tyology of tasks (5)

## Various types of tasks

- Ministerial tasks
- Services of a monopoly nature
- Tasks related to supervision of economy and security
- Services in the market place

# Corporate Governance (1)

## Steering elements

- Legal form
- Bodies
- Federal representatives
- Liabilities
- Special competencies
- Strategic goals
- Control
- Supervision
- Finances and taxes

## Corporate Governance (2)

Linking the typology of tasks and guiding principles should enable the Federation to improve its exertion of influence

- To what extent can elements of organizational law be improved so that the Federation can ensure coherent ownership policies in the long run
- Lean and professional organizational structures
- Steering via owner's strategic goals
- Increased control
- Greater transparency in the financial area
- Abolition of special regulations which distort competition

# Corporate Governance (3)

## Distribution of roles

- The government exerts ownership function
- Parliament determines the general legal framework
- Within the administration, functional, economic and safety supervision as well as service commissioning are to be kept separate in order to avoid conflicts of interests.

# New ways of financing (1)

## Growth sectors with flaws

- German public sector's Financial reorganization backlog: a half-trillion € (Frankfurter Allgemeine Zeitung, 21 September 2007)
- In the eyes of the European Commission, PPP projects are unduly supported – in cases of financing by banks usually by means of waivers of objection

# New ways of financing (2)

## Possible definition

- PPP is not a fixed, strictly scientific concept, but a passage of measures in the broad area between state task fulfillment and privatization
- PPP is not so much an instrument or a method as an approach to problem solving, characterized by the public sector's culture and new awareness of cost and performance.

## New ways of financing (3)

PPP can be paraphrased as a new approach based on a cooperation in partnership with the private sector, aimed at increasing efficiency or joint fulfillment of complex public tasks by working in partnership with the private sector. However, a careful and step-by-step approach is essential:

- Suitability test
- Profitability analysis
- Risk analysis

## New ways of financing (4)

- Projects the public sector cannot afford by means of conventional financing should not be alternatively financed either
- Profitability must be proven for each individual project and throughout its entire duration
- A proportionate and economic distribution of risks among public sector and private partner is essential
- Public procurement law must be adhered to
- The external auditors must be granted their rights





# Challenges facing external auditors (1)

## Some propositions

- Financial auditors are not the engine of changes, but neither should they get in their way.
- Financial auditors should support politics by advisory based on their auditing experience.
- Financial auditors should make sure they can bring their concerns to reforms, while protecting their independence.
- Auditors' right to inspect may not be limited. There should be no means of escape from budget and financial auditing.



# Challenges facing external auditors (2)

## Some propositions

- When dealing with enterprises gone independent, annual audit and financial supervision must be distinguished.
- Auditors check whether a risk management allows for outsourcing and new ways of financing.
- New ways of financing and outsourcing require new approaches to auditing.