

**INTOSAI Working Group on the Audit of Privatisation – the 11th meeting
in Sofia, 1 – 2 June 2004.**

**Governmental purchase of transport services from the
Norwegian Railway Corporation**

I am very pleased to make this contribution on behalf of the Office of the Auditor General of Norway, which I from now on will refer to as the OAG. I hope during my presentation of this case to illustrate the importance of making use of factual knowledge in the efforts to establish an efficient administration and to achieve one's aims successfully.

In order to understand the terms under which the Norwegian Railway Corporation operates, I would like to draw your attention to some vital facts:

1. The major part of our 4300 km – or 2700 miles – of tracks are single tracks.
2. Considering the territorial size of Norway the population is relatively small, and parts of it are also widely spread throughout the country.

These circumstances make it difficult to run the railway system effectively or profitably. When utilized to the full capacity, though, the railway system provides a means of transport beneficial to the environment and occupying only a small area. When fully utilized the railway system is therefore financially preferable to society compared to the car traffic.

Railway passenger services have so far been carried out by a corporation owned by the state, named the Norwegian Railway Corporation, from now on referred to as the NSB. In order to secure an adequate financial outcome for the corporation, the state grants a certain amount of money – about 200 million dollars – each year for the railway operations. The contribution is set in advance and is supposed to cover the gap between the operational costs and the income from the ticket sales, and also provide a margin to help the corporation obtain the key outcome set by the owner, which is the state. This grant will apply, though, only according to the regulations concerning the costs and the outcome given in the contract between the state and the corporation. In return the NSB will commit itself to obtain the key outcome and other targets set in the contract. The contents of the contract, including the size of the grant, will be decided in the yearly negotiations. I will get back to this later.

The goals for the railway operations

The goals for the railway operations are set by the Parliament, and the most essential goals are:

1. A transfer of the passenger transport from the roads to the railways.
2. Strengthening the NSB's competitive skills compared to other forms of transport, especially cars and airplanes.
3. High utilization of the capacity.

In a report to the Parliament the Government has recommended a strategy involving an increase in the passenger services in the crowded areas in order to make the efforts more fruitful in terms of more people using the trains.

Targets and aims in the arrangements

In the yearly contracts between the state and the NSB, the Ministry of Transport has, on behalf of the state, set the targets in relation to:

1. Transport supply, in detail meaning: the number of departures on each distance, and the number of seats on each departure
2. Productivity: the measurable targets are not yet defined
3. Punctuality and regularity

The contracts are designed to provide incentives for the NSB to increase the volume of passenger transport, which is in compliance with the goals for the railway operations.

The conducting of the audit and the communication with the Government

Except for a few cases where the Parliament has assigned the OAG to carry out specific tasks, all the performance audits are initiated by the OAG. In the internal process of choosing areas of auditing, it is of great importance for the OAG to focus on relevant and current issues. The election of areas of auditing is based on assessments of risk and materiality.

During the audits the responsible ministries are given the opportunity to make comments and suggestions regarding the audit questions and approaches. The ministries can also comment on the audit criteria – meaning the political norms, resolutions, regulations etc. – which is the basis for the assessments the OAG is going to make. When the audit report is finished, the ministries will have the time required to confirm the description of facts and make comments on the assessments. The audit of the Governmental purchase of transport services from the NSB has followed the same procedure.

This audit was finished in the summer of 2003, and the final report was sent to the Parliament in the beginning of November, after the required procedures in the Ministry of Transport and in the OAG board. The Parliament will hold a hearing of the report in the spring of 2004. The Ministry of Transport has not yet had the time to take any action in order to follow up the report, but the ministry is intending to implement several measures. We will get back to this a little later.

The OAG wanted to establish whether the NSB has succeeded in achieving the political goals as well as the targets given in the contracts between the state and the NSB. Further the OAG has examined the management, control and monitoring conducted by the ministry. Lastly we wanted to decide whether the contracts are in compliance with the common state finance management regulations.

In the audit the OAG has only made use of information already available to the ministry or to the NSB. Still the ministry has hardly given any attention to this information in its efforts to control and monitor the operations of the NSB. This is a basic issue in the criticism expressed

to the Ministry of Transport by the OAG, and also a main issue in this presentation. The information required has been available and the relevant concepts have been in use, but so far nobody has taken the responsibility to adapt the information to an operational level for the ministry's management purposes.

The Ministry of Transport considered our audit quite relevant to the Government, and expressed particularly the expectations that the guidance given in the report might help the ministry design a more effective organisation for management and monitoring. This became obvious in the communication between the OAG and the Ministry of Transport during the auditing process.

The outcome of the audit

Our examination of the NSB's achievements disclosed a rather discouraging state:

1. The volume of the passenger transport was reduced by 11,8 per cent in the period 1997 to 2001. The target for the period was an increase by 7,2 per cent.
2. The frequency of train departures was increased by 10,2 per cent. As intended, the increase happened in the most crowded areas. The audit revealed, though, that in these areas the volume of tracks was already utilized to the maximum. As a consequence the regularity and the punctuality of the trains were reduced. Since regularity and punctuality are vital criteria in the efforts to satisfy the customers, one might suggest that the Government's strategic actions produced the reverse of the desired effect.
3. There was an increase in costs by 12,5 per cent.
4. The development in terms of costs, volume of passengers and passenger services showed a decrease in productivity.
5. One of the targets set for the NSB is a maximized utilization of the capacity. In regard to this target the audit revealed an increase in the utilization of the tracks, which was already pushed to the limit. And at the same time there was a reduction in the seat occupancy, where there was vacant capacity to begin with.

In the audit we also examined the design of the contracts between the ministry and the NSB, only to find that the focus of the management was set on the number of train departures and not on the monitoring of the goals for the railway operations. Or to phrase it this way: The focus was set on the activity and not on the outcome, and accordingly lower in the chain of effects. Further the management of the number of train departures was far too detailed. Consequently it was impossible for the NSB to pay adequate attention to the effects on society resulting from the railway operations. The NSB also got too little space to direct the railway operations towards an increase in the passenger transport with the supposed increase in the income from the ticket sales.

An examination of the ministry's monitoring revealed that:

1. The Ministry of Transport does not obtain the information that would show the NSB's achievements in relation to the main objectives.

2. The management information obtained is not entirely reliable. There are several weaknesses in the data, because of miscalculation.
3. The ministry should be enabled to apply relevant sanctions against the NSB.
4. The ministry has not used its major powers to obtain and to examine the management information available.

Monitoring and measures initiated by the Government

Concurrently with our audit the Ministry of Transport has been planning to announce a tender on the right to operate the traffic on certain train distances. The ministry also wants to make the size of the grant depend on the success of the railway operations. In the audit report the OAG has emphasized the fact that this arrangement will require an even better management in the sense that

1. the targets will have to be more general and more accurate.
2. unintended effects of the targets will have greater consequences.
3. more management information will be required.
4. the reliability of the management information must be improved.

The actions proposed by the Ministry of Transport will then force the ministry to improve radically the quality of its own management of the railway operations. This management is, as we have seen, a soft spot in the ministry at the present.

The Ministry of Transport has expressed its consent to all our assessments and proposals in its comments on the audit report. The ministry has also stated its intention to:

1. make the management of the railway operations more target oriented.
2. give the traffic operators greater freedom of action.
3. obtain the management information required according to the OAG's audit report.
This will be a relevant matter in the further follow-up process.

It remains to be seen how the ministry will put these measures into effect. The process will certainly require a follow-up on our part, which is at the moment scheduled for the spring of 2007.

We do have reason to believe, though, that the Ministry of Transport will be able to improve its management of the railway operations relatively soon. In a long term perspective the ministry is also likely to increase its knowledge concerning the effects of the measures implemented.

If the ministry proves able to put its newly acquired knowledge into action, there is reason to expect some improvement of results and outcome regarding the NSB. The good results should then be evident in our future audits.

I might come back to you with more information on these matters in the fall of 2007.

Thank you very much for your time!