

**Report
on
some accounting and financial
transactions of Combust a/s**

Report from the Auditor General forwarded
to Folketinget pursuant to section 18(1) of
the Act on Audit of the Public Accounts, etc.



Rigsrevisionen

This report to Folketinget (the Danish Parliament) falls within section 18(1) of the Act on Audit of the Public Accounts, which imposes an obligation on the Parliament's Public Accounts Committee to forward the reports of the Auditor General prepared under section 17 of the same Act together with their comments, if any, to Parliament and the relevant minister.

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Report on some accounting and financial transactions of Combust a/s

I. Summary

Objective

1. The main objective of the examination, which has been carried out upon request from the Parliament's Public Accounts Committee, is to give an account of the application by Combust a/s of the provision of DKK 140 million entered in the opening balance sheet at the founding of the Company and to describe and assess the Company policy and procedures in connection with participation in tenders for bus lines. Further the examination comprises an assessment of the distribution of competence between the Board of Directors of Combust a/s and the Minister for Transport, who is the sole shareholder of the Company.

2. The examination comprises the years 1995 to 1998 and is based on a review of annual accounts, accounting material and information procured from the Company. The National Audit Office of Denmark (NAOD) has also held a number of meetings with the Company and the Ministry of Transport.

Founding of Combust a/s

3. Combust a/s was founded by Act No. 232 of 4 April 1995 on DSB Busser A/S when the Company was split from the former bus division of the public corporation DSB (the Danish State Railway) with effect as from 1 January 1995. The founding of the Company was to ensure a clear separation from the economy of the Danish State Railway, so that the bus company could compete on equal terms with private transport companies. The reason for the Act was the EU provisions on observance of the public procurement rules when concluding service contracts.

In August 1997 DSB Busser A/S changed its primary name to Combust a/s (Combust).

4. The Act on DSB Busser A/S imposed an obligation on the civil servants of the bus division of the Danish State Railway to serve in the new Company, retaining their employment relationship with Central Government, as the Company had an obligation towards the Danish State Railway to employ them.

The Company should offer the said civil servants to be transferred to employment with the Company within a period of two years.

Civil servants, who were to be in service, but did not want to be employed by the Company, had to be remunerated by Central Government, which was also to defray pension expenses.

Following take-over of the bus services, Central Government was to be reimbursed by the Company for salaries and any availability pay paid out to the civil servants, and the Company was to make pension contributions for the seniority for pension purposes earned after the take-over date.

Central Government was to defray pension expenses pertaining to civil servants engaged by the Company against the Company making pension contributions during their employment. Civil servants on staff were entitled to availability pay, etc., if their positions were cut back.

In the explanatory notes it was stated that about 730 of a total of about 1,575 staff employed by the bus company at the founding of Combus were employed under collective agreements, whereas about 845 were civil servants.

5. The obligation of Combus to employ more than 800 civil servants, corresponding to more than half of the total staff, imposed great demands on the Company because the financial burden of employing civil servants instead of drivers under collective agreements impaired the competitive situation of the Company, all other things equal.

6. Combus was founded by contributing the assets and liabilities and computed goodwill of the previous bus transport business. The total remuneration to Central Government in the form of assets, share premium and founder's receivables amounted to DKK 226 million.

According to the explanatory notes, Combus was to be founded with a capital structure assessed to be sufficient for the Company to survive in spite of increased competition considering its special financial obligations in relation to staff. Therefore a provision in the amount of DKK 140 million was made in the opening balance sheet of the Company as at 1 January 1995 as partial cover of the additional expenses for pension contributions in the first years and partial cover of the risk of having to pay availability pay to seconded civil servants or civil servants whose employment was transferred to the Company if they became redundant in connection with cutbacks. It appeared from the explanatory notes that the terms on which Combus had been founded had been assessed to offer the Company a reasonable basis of being competitive, although the Company was founded with a relatively narrow financial margin.

7. The provision of DKK 140 million was proposed in a report drawn up by a working group set up by the Ministry of Transport. The starting point of the working group was that the proposal should be financially viable within the framework of being on “equal terms” with the remainder of the sector, so that Combus would at least obtain cover of part of the special burdens imposed on the Company, since it was to employ drivers who were civil servants with the pertaining salary burdens as compared with drivers under collective agreements.

8. The working group pointed out that seen over the years the provision was much smaller than the annual burden over the first years of between DKK 40 and 50 million for additional expenses related to civil servants. The liabilities of the Company would increase considerably in spite of a positive financial result because, at the same time, the Company had a liquidity deficit. The reason was that the provisions were not cash deposits, but merely corresponding non-liquid assets. In other words, the provisions would gradually be converted into debt.

The Company was founded with a very small margin and with the expectation that about ten years would elapse before the debt situation would change. On the one hand, this also carried the risk that the Company would, for

example, have to fold down due to large interest payments. On the other hand, positive economic conditions, etc., might enable the owner to obtain reasonable proceeds.

Expenses that would be covered by the provision were expenses payable by Central Government under any circumstances. It was neither a loss for Central Government, nor subsidies to the Company. On the other hand, Central Government would be able to cut down by gradually terminating the relatively expensive civil servants system.

9. The provision affects both the financial conditions (liquidity) and the accounts. The financial effect is related to the founding phase, in which the temporary conversion of the founder's receivables of Central Government into a provision set up Combust with the desired financing.

The effect on the accounts is related to the application of the provision. The application is an item in terms of bookkeeping which does not increase the earnings of Combust and thus its liquidity for real cover of the additional expenses.

Instead of a provision, another possibility was to withdraw a further DKK 140 million from the Company in the form of founder's receivables or have the equity increased by that amount. Withdrawal of the amount would have rendered it necessary for the Company to raise a loan to finance the payment. This possibility was excluded due to the general financial situation of the Company. An increase in the equity would not provide the Company with improved liquidity. However, the consequence would have been that the subsequent financial reporting would have given a clearer view of the financial position. The operating results would have been poorer, since the actual expenses were included in the accounts without any reduction for the provision. Correspondingly, the development in equity would have been clearer.

10. The NAOD notes that the provision of DKK 140 million in the opening balance sheet of the Company did not provide Combust with sufficient liquid funds to cover the additional expenses for pension contributions or the risk of having to pay availability pay. As pointed out, the purpose of the provision is to apply it for setting off in the

accounts the costs actually defrayed and thus contribute to a more positive financial result. Supply of liquid funds is a condition for partial cover of the additional expenses, etc., to ensure that the Company is founded on financially “equal terms”. On the basis of conversations, minutes examined, etc., the NAOD finds, that both in connection with the founding of Combust and in connection with the subsequent transactions not everybody involved has fully appreciated this restriction in the provision as a means of financial compensation.

The NAOD finds it misleading when stated in the explanatory notes that the provision was to partially cover additional expenses. This also applies to the argument in the report of the working group on “only partial compensation for pay differentials” used as a reason for delimiting the field of application of the provision. These statements may give the impression that it is reimbursement proper of expenses paid. It is worth noting that there was no mentioning whatsoever of the fact that the restriction concerning the application of the provision of DKK 140 million only applied to the subsequent possibilities of setoff in the accounts.

The NAOD finds that the Ministry of Transport ought to have made it clear in the explanatory notes to the draft Act on DSB Busser A/S that the partial cover of the additional expenses referred to in the explanatory notes was no cover in terms of liquidity, but a possibility for the Company to give a more positive impression of the financial results.

Competence of the Minister for Transport

11. Combust is a limited company wholly owned by Central Government, the Minister for Transport being the only shareholder. Formally the shareholders can only exert influence at general meetings; but since votes will always be unanimous at general meetings in a wholly owned company, special circumstances prevail rendering general meeting resolutions unnecessary, at least in respect of a number of accounting issues.

Thus, the Minister for Transport has had the possibility of procuring information on, for example, the arrangement of the DKK 140 million provision before deciding on

approval of the annual accounts in question and thus on the application of the provision in that particular year.

The Ministry of Transport has noted that prior to the approval of the annual accounts the Ministry had noted whether the auditors appointed at the general meeting had found any reason to comment on the way in which the Company had applied the provision in the individual financial years. The Ministry could not have got any other impression than that the provision had been applied in accordance with legislation.

12. The NAOD emphasises that the Ministry's possibilities of gaining insight and influence depend on the scope and quality of the information forwarded to the Ministry on a regular basis and upon request as well as the Ministry's handling of such information.

It can be ascertained that the Ministry has not received any information from the annual accounts or the audit reports that could raise any doubt about the application of the provision.

In the opinion of the NAOD, the auditors appointed by the general meeting, including the NAOD, should have pointed out explicitly that the provision was applied for other expenses than those specifically mentioned in the explanatory notes.

The NAOD points out, however, that the Ministry of Transport, as other ministries, has a separate responsibility for ensuring that any special legislation on financial statements has been followed.

The NAOD further emphasises that annual accounts and audit reports as sources of information about the financial development of a company are of a very superficial and retrospective nature. It ought to be natural that, at least in a wholly publicly owned company, a ministry follows the financial development closely through, i.a., its representative on the Board of Directors. Therefore, the Ministry ought to have been aware of the insufficient financial management of Combustion.

[Application of the provision](#)

13. Already from the first financial year, the calculation of the year's withdrawal from the provision also included other kinds of expenses than the expenses for pension

contributions and availability pay fixed in the explanatory notes.

In 1995, expenses for continued pay to civil servants in case of sickness were included.

Being co-auditor and co-signor of the auditor's report of the 1995 annual accounts of the Company, the NAOD has ascertained in connection with the examination that in 1995 the NAOD was not aware of the fact that the provision was reduced by the amount paid out as continued pay in case of sickness.

In 1996, expenses for severance pay and salaries to redundant civil servants who remained employed were also included.

By paying severance pay, Combust was released from the liability of paying availability pay, for which reason the Company decided, according to the information available, to make a withdrawal from the provision in consideration of analogy and to restrict losses. The Company also avoided to place the redundant civil servants on availability pay, since it was anticipated that other positions could be assigned to them within a short period.

The decision to apply the provision for other types of expenses too has not been reported in the minutes of Board meetings or audit reports for 1995 and 1996.

From 1997, the Company included differential pay as yet another type of expense. To restrict the additional expenses related to redundant civil servants, the Company chose to apply the employees in question as substitutes for or replacements of drivers under collective agreements who had resigned instead of paying availability pay to the civil servants in question.

The difference between the wages of a driver under a collective agreement and a driver employed as a civil servant for the period during which the civil servant in question was employed in a position that a driver under a collective agreement would otherwise have held was deducted from the provision.

In the minutes of the Board meeting in August 1997 a new tender philosophy is referred to in connection with tenders for bus service with civil servants. From these minutes it appears that in case a financial loss is expected in connection with tenders based on salaries to civil servants, such additional expenses could be omitted from

the tendering and instead be defrayed via the provision. It appears, however, from the auditor's report for the financial year 1997 and the material received that the item differential pay only comprised civil servants who had become redundant in connection with lost tenders for bus service. The Company has stated that it applied the said tender philosophy, but that the provision was not applied in 1997 for that purpose.

It did not appear from the 1997 audit report that the provision had been applied for continued pay in case of sickness and severance pay.

It appears from the minutes of the Board meeting on 31 March 1998 that, from 1998, the Company would submit tenders on the basis of the wages for general workers and refer the pay differential to the provision. Such tenders were made in connection with invitation for tenders for bus lines previously serviced by the Company with the use of civil servants in order to avoid redundancy of these civil servants. While this tender policy was applied, it was, however, decided at a Board meeting on 30 March 1999 that the provision should not be reduced in that connection by the pay differential in 1998.

According to the 1998 draft annual accounts of the Company, that year the provision was applied both for additional expenses for pension contributions and availability pay and for severance pay and differential pay to redundant civil servants.

According to the information available, the Company plans to book the remaining part of the original provision of DKK 140 million as income after an amount of the provision has been reserved for the calculated additional expenses in 1999.

14. It has been planned to finally set off the provision as a result of the adoption on 18 December 1998 of the Act Amending and Repealing the Act on DSB Busser A/S and Amending the Act on the Independent Public Corporation DSB (the Danish State Railway) and on DSB S-tog A/S. The basis of the Act was a political agreement on the 1999 Finance Act to the effect that an attempt should be made to dispose of the shares of Central Government in Combus in 1999. It appeared from section 3 of the Repeals Act that the seconded civil servants were offered transfer to

employment under collective agreements as at 1 April 1999 against a lump sum remuneration, increase of their seniority for pension purposes, or a combination of both possibilities.

The former civil servants would then be comprised by the Act on the Legal Position of Employees in case of Mergers and Acquisitions so that Combus would be on equal terms with other companies in connection with any future tenders for bus lines, which had previously been serviced by civil servants, since they had now become “transferable”.

It also appeared from section 3 of the Repeals Act that the Danish State Railway should offer another suitable job to seconded civil servants who did not accept employment with the Company under collective agreements and defray any related expenses.

15. Whether the provision was applicable for other purposes than payment of pension contributions and expenses for availability pay, such as expenses replacing availability pay, is a question of interpretation of the explanatory notes. The NAOD finds that the words “partial cover” do not open up the prospect of applying part of the provision for other purposes. It appeared partly from the report of the working group and partly from the reply of the Minister for Transport to the hearing that the intention was for the provision of DKK 140 million to cover only part of the additional expenses for pensions and availability pay during the first years, and then the need should be reconsidered.

16. The Company has reduced the provision by other additional expenses related to the civil servants than those referred to directly in the explanatory notes. While the additional expenses earmarked in the explanatory notes were for pensions and availability pay, it appears from the investigated material that already from 1995 the Company chose to reduce the provision by the additional expenses related to civil servants’ sickness, from 1996 also by additional expenses for severance pay and salaries to redundant civil servants, and from 1997 further by differential pay.

The NAOD has thus ascertained that an average of DKK 5 million per year or a total of about DKK 21.3 million of the original provision of DKK 140 million has been applied for other expenses than those laid down in the explanatory notes. The Company has stated that one reason why it used the provision also for other types of expenses was that the Company was operated on commercial terms, cf. the Act on DSB Busser A/S, for which reason it was the obligation of the Company Management/Board of Directors to reduce the risk of losses.

Since the provision did not reduce the actual additional expenses of the Company, the NAOD finds that the consideration of limiting losses is irrelevant seen in relation to the provision. In the assessment of the NAOD, the clear limits set out in the explanatory notes and other legislative material do not authorise any other application of the provision.

The NAOD has noted that application of the provision for continued pay in case of sickness and severance pay is not mentioned in minutes of Board meetings and audit reports.

Financial development in Combust from 1995 to 1998

17. The turnover of Combust has increased considerably since the founding in January 1995. Costs have, however, increased even further, leading to a steep fall in the result for the year 1997 and for the year 1998 in particular.

The negative development has given rise to an anticipated reduction of the equity of the Company, amounting to DKK 119 million at the founding, to about DKK 47 million at the end of 1998. The reduction of equity appears after the application of about DKK 87 million of the provision for a reduction in the accounts of expenses defrayed.

18. The operating profit/loss of the Company has had a negative trend, particularly in 1998 where the anticipated result for the year is a considerable operating loss.

The Company has experienced a significant increase in turnover, but proportionally expenses have increased even further.

Tenders submitted by the Company

19. Combus has been very active in connection with tenders in recent years, competition in the bus transport sector having been intensified. From 1994 to 1997 prices fell by an average of 15 to 17 per cent in fixed prices. An examination performed by the Danish Transport Council in 1998 shows that the main part of the reduction of prices during the period has been financed by a reduction of the profit of the companies.

Of the buses for which tenders were invited in 1997, Combus was awarded contracts in connection with almost half of the tenders and had to set up business in a number of new areas. The tendency in 1997 with many new areas continued in 1998 when Combus won contracts for 159 buses, gaining a net increase of 74 buses. This gave rise to increased expenses because, due to initial expenses and little knowledge of the level of expenses and the organisation, it was more expensive to be awarded contracts for new bus lines than to succeed in retaining old lines.

20. The NAOD has investigated the calculation policy of Combus on the basis of two large tenders in 1997. The NAOD finds that a detailed calculation of the expected costs have been prepared. Since the bookkeeping of Combus does not allow for cost accounting, it is not possible to verify whether there is accordance between actual and expected costs and whether the cost units defined are sufficient and/or how the calculated unit costs relate to the actual costs. It must be considered a deficiency and a commercial risk that a business based on tenders to such a high degree has not taken any measures to control the quality of the tenders submitted. The commercial risk is intensified by the fact that the margins that are to cover uncertainty and profits have seen a continuing downward trend.

It is not possible, on the basis of the accounting of the Company, to make a precise assessment of whether bus services obtained on the basis of a successful tender yielded any profit, and if so to what extent. The Company has stated that it did not deliberately calculate with a loss seen over the entire contractual period and over the entire service area when preparing its tenders.

21. The NAOD also noted that when the Company included the calculation of the return of the investment that was to contribute to the profit, the rapidly increasing expenses for interest payable on the loan capital was generally not taken into consideration to a sufficient degree.

22. When preparing the tender, in the end a minor commission is included, constituting a sort of risk premium. The NAOD has ascertained that in few cases the commission was negligible small. This commission policy was based on the fact that it might be more expensive to be an unsuccessful tenderer than to service a line at a smaller profit for a period. The NAOD has noted that there is no unambiguous correlation between the tenders with the lowest calculated commissions and the successful tenders.

It seems risky to operate with a virtually non-existent commission. Only little room is left for contingencies, and it gives a very narrow margin between profit and loss.

The very small margins applied in some cases in connection with the calculation of tenders carry the risk that bus services may be operated at a loss even when based on the assumption that the additional expenses for salaries and pensions for civil servants could be defrayed via the provision. It is obvious to assume that this has been a contributory cause of the poor 1998 result of the Company.

23. In the opinion of the NAOD, the application of the provision has not, in itself, caused distortion of competition.

However, in relation to other bus companies, additional expenses and the risk of having to pay availability pay have been imposed on Combus due to the civil servants taken over. To avoid payment of availability pay, the Company submitted tenders for lines serviced by civil servants with almost insignificant profit margins and based on wages for general workers. Because of the non-existent cost accounting in respect of the individual lines, the Company has not been able to verify that it has not submitted tenders for some bus lines with a negative profit margin.

The NAOD finds that Combus has displayed imprudence in connection with recent years' tender policy. To a certain extent the Company has made its calculations on the basis of an intention to mitigate losses and has, at

least in some of its tenders, included a very narrow earnings potential without possessing the requisite knowledge of whether the present cost accounting basis in general was sufficient and without having effected any subsequent control of it.

The NAOD finds that the tender policy of Combust has not been financially viable.

The NAOD examination disclosed:

- that the obligation of Combust to employ the civil servants taken over impaired the competitive basis of the Company,
- that the Ministry of Transport should clearly have pointed out in the explanatory notes that the provision did not provide liquidity to cover additional expenses defrayable by Combust,
- that, in itself, the provision has not distorted competition,
- that the Ministry of Transport ought to have been aware of the insufficient financial management of the Company,
- that to a certain extent the application of the provision in the accounts comprised other expenses than those stated directly in the explanatory notes,
- that the operating profit/loss of the Company has had a negative trend, particularly in 1998 where the anticipated result for the year is a considerable operating loss,
- that the Company has displayed imprudence in connection with the recent years' tender policy by calculating very narrow earnings margins without having the requisite knowledge of whether the particular cost accounting basis was in general sufficient and without checking it, and
- that the tender policy of the Company has not been financially viable.

II. Introduction, objective, scope and methodology

A. Introduction

24. In connection with its meeting on 10 February 1999 the Parliament's Public Accounts Committee requested the

NAOD to prepare a memorandum with an account and assessment of compliance with the object, financial transactions and any unauthorised transfer of means to the operation of Combust. The NAOD was also requested to investigate the distribution of competence between the Board of Directors of Combust and the Minister for Transport, the Minister having authority as sole shareholder – formally through the general meeting – to determine the transactions of the Company.

Since the preliminary examination performed by the NAOD showed that the examination might give rise to criticism, it was decided to prepare a report to the Public Accounts Committee on the subject.

This report is presented to the Public Accounts Committee pursuant to sections 8(1) and 17(2) of the Act on the Auditor General (Consolidated Act No. 3 of 7 January 1997).

The report describes circumstances of the wholly publicly owned Combust. The public ownership of the Company belongs under the Ministry of Transport. This report thus relates to section 28 of the Public Accounts.

25. The NAOD examination has been performed with the authority provided by section 4(2), first sentence, cf. section 6(1) and (2) of the Act on the Auditor General. According to this provision, the NAOD has the right to send for and examine the accounts of wholly publicly owned limited companies and of limited companies in which Central Government has decisive influence, but not limited companies listed on a stock exchange.

The accounts referred to are annual accounts, etc., relevant accounting material and other material and information deemed important by the Auditor General to perform his duties.

B. Objective and scope

26. The NAOD has limited the objective and scope of the examination to:

- Description of the background of the founding of Combust.

- Statement of distribution of competence between the Board of Directors and the Minister for Transport.
- Statement and assessment of the partial application by the Company of a provision of DKK 140 million, which was entered in the opening balance sheet at the founding of the Company in 1995.
- Description and assessment of the financial development of the Company.
- Description and assessment of the Company policy and procedures in connection with participation in tenders for bus lines.

27. Due to lack of internal accounts and cost accounting, etc., the examination did not include an analysis of how the operation of the individual bus lines has affected the financial situation of the Company.

The examination did not include an overall assessment of the opening balance sheet of the Company, nor did the examination include an assessment of the future financial trends of the Company.

The examination period comprises the years 1995 to 1998.

The examination was concluded on 27 May 1999. As a matter of form it should be added that the examination did not include the document according to which the Minister for Transport obtained consent from the parliamentary Finance Committee to supply DKK 300 million to Combus.

C. Methodology

28. The examination is based on a review of annual accounts, accounting material and information procured from the Company. By means of random samples, the NAOD examined the basis of tenders prepared. During the examination, the NAOD also held a number of meetings with the Company.

In connection with the examination, the NAOD has corresponded with the Ministry of Transport and the Financial Administration Agency.

The draft report was submitted to the Company and the Ministry of Transport. The draft did not include the

comments of the NAOD, which were only prepared on the basis of the replies received in connection with the hearing. The information and comments received have been incorporated to the widest extent possible.

The Company and the Ministry of Transport have confirmed that all relevant material concerning the case has been handed out to the NAOD.

III. Founding of Combust a/s

A. Act on DSB Busser A/S

29. By Act No. 232 of 4 April 1995 on DSB Busser A/S, the former bus division of the Danish State Railway was split from the publicly owned corporation the Danish State Railway, cf. paragraphs 234 to 238 and 247 to 253 of report No. 16/97 of the Parliament's Public Accounts Committee on the 1997 appropriation control, elaborating on the founding and the development of the Company from 1995 to 1997.

The Act was a result of the framework agreement concerning the Danish State Railway during the period 1995 to 1998, which was concluded by the Government, the Liberal Party and the Conservative Party on 21 November 1994.

The founding of DSB Busser A/S was to ensure a clear separation from the economy of the Danish State Railway, so that the bus company could compete on equal terms with private transport companies.

In August 1997 DSB Busser A/S changed its primary name to Combust a/s (Combust).

30. The reason for the Act was the EU provisions on observance of the public procurement rules when concluding service contracts. Thus, by Council Directive 93/38/EEC of 14 July 1993, amendments were adopted to Council Directive 90/531/EEC of 17 September 1990 coordinating the procurement procedures of entities operating in the water, energy, transport and telecommunications sectors. Thereby, the Directive rules on public procurement also comprised the conclusion of service contracts.

This meant that public bus service should in future be decided on the basis of public procurement contracts when performed by others than the authority having the financial liability. Contracts on bus service should be concluded either on the basis of “the lowest tender” or “the most economical tender” – without taking into consideration whether the tender was made by a privately or publicly owned company.

The ordinary bus line services had so far been performed on the basis of standard contracts laying down uniform terms of payment for the service.

The transition from standard contracts to tenders, which would also be submitted by foreign bus companies, would, according to the explanatory notes, lead to increased competition on the market for bus services and thus to uncertainty of whether the individual bus company could retain the lines serviced so far.

31. The Act imposed an obligation on civil servants of the bus division of the Danish State Railway to serve in the new Company, but retain their employment relationship with Central Government, as also the Company, in relation to the Danish State Railway, had an obligation to employ these persons. The Company should offer the said civil servants to be transferred to employment with the Company within a period of two years.

Civil servants, who were to be in service, but did not want to be employed by the Company, had to be remunerated by Central Government, which was also to defray pension expenses. Following take-over of the bus services, Central Government was to be reimbursed by the Company for salaries and any availability pay paid out to the civil servants, and the Company was to make pension contributions for the seniority for pension purposes earned after the take-over date.

Central Government was to defray pension expenses pertaining to civil servants engaged by the Company against the Company making pension contributions during their employment. Civil servants on staff were entitled to availability pay, etc., if their positions were cut back.

In the explanatory notes it was stated that about 730 of a total of about 1,575 staff employed by the bus company at the founding of Combus were employed under

collective agreements, whereas about 845 were civil servants.

Comments of the NAOD

The obligation of Combus to employ more than 800 civil servants, corresponding to more than half the total staff, imposed great demands on the Company because the financial burden of employing civil servants instead of drivers under collective agreements impaired the competitive situation of the Company, all other things equal.

B. The provision made in the opening balance sheet of the Company

32. According to the explanatory notes, Combus was to be founded with a capital structure assessed to be sufficient for the Company to survive in spite of increased competition considering its special financial obligations in relation to staff. Therefore a provision in the amount of DKK 140 million was made in the opening balance sheet of the Company as at 1 January 1995 for:

- partial cover of additional expenses for pension contributions in the first years, and for
- partial cover of the risk of having to pay availability pay to seconded civil servants or civil servants whose employment was transferred to the Company if they became redundant in connection with cutbacks.

It was also stated that to the extent an assessment of the financial situation of the Company made by one of the external Company auditors as at 1 January 1997 would show that not all of the remainder of the provision was needed, then the provision could be reduced by dividend from the Company, resulting in cash proceeds to Central Government.

The main items of the opening balance sheet of the Company appear from [table 1](#).

Table Error! Unknown switch argument.. Opening balance sheet of Combust

Assets	DKKm	Liabilities	DKKm
Goodwill.....	20	Share capital.....	65
Land and buildings.....	31	Premium at issue.....	54
Buses.....	288	Equity.....	119
Other operating equipment.....	12	Provision for pension/availability pay.....	140
Capital investments.....	13	Other provisions.....	30
Total fixed assets.....	364	Founder's receivables (liability).....	107
Current assets.....	106	Short-term debt.....	74
Total assets.....	470	Total liabilities.....	470

Combust was founded by contributing the assets and liabilities and computed goodwill of the previous bus transport business.

It appears from table 1 that the total remuneration to Central Government in the form of assets, share premium and founder's receivables amounted to DKK 226 million (DKK 119 + 107 million). The founder's receivables were subsequently reduced by DKK 6.5 million by Document 76 of 6 December 1995 due to a miscalculation of the debt assumed.

The explanatory notes stated, *i.a.*, that the terms on which Combust had been founded had been assessed to offer the Company a reasonable basis of being competitive, although the Company was founded with a relatively narrow financial margin.

The activities of the Company within a competitive market would thus hardly be backed by the same degree of financial security as the one that characterised former conversions of public corporations into limited companies.

33. The provision of DKK 140 million concerning pension and availability pay was proposed in a report drawn up by a working group set up by the Ministry of Transport for the purpose of making proposals for conversion of the bus division of the Danish State Railway into a limited company.

The starting point of the working group was that the proposal should be financially viable within the framework of being on "equal terms" with the remainder of the sector. According to the working group, the

principle of “equal terms” determined that Combust would at least obtain cover of part of the special burdens imposed on the Company, since it was to employ drivers who were civil servants with the pertaining salary burdens as compared with drivers under collective agreements. The special salary burdens originated in higher salaries and higher pension contributions and also the risk that the availability pay would be triggered, cf. section 32 of the Civil Servants Act. Also drivers under collective agreements, particularly outside the Copenhagen Transport area, had higher hourly pay, pension contributions, etc., which was due to differences in the collective agreements in question.

The result of the calculations and considerations made by the working group was the proposal for a provision of DKK 140 million in the opening balance sheet:

- to cover 75 per cent of the additional expenses of the Company for pension contributions compared with the private drivers’ collective agreements. That is 7.5 per cent for the drivers under collective agreements who were taken over (collective agreement concluded with the Association of Danish State Employees’ Organisations) and 15 per cent for drivers employed as civil servants, compared with 1.4 per cent pursuant to the collective agreement between the General Workers’ Union in Denmark and the Danish Bus Owners’ Association, and
- as partial “insurance” against the risk that 10 per cent of the drivers employed as civil servants would have to be on availability pay.

The restrictions on the cover of additional expenses as seen in per cent was not included in the explanatory notes.

To ensure that any unnecessary part of the provision accrues to the Treasury as soon as possible as a kind of late founder’s receivables, the working group proposed that a clause on recalculation should be associated with the provision.

34. The working group emphasised that the provision should be earmarked for the specified purposes. Thus,

Combus should not be granted any compensation for additional expenses due to pay differentials. Additional expenses estimated by the working group to amount to DKK 40 million per year on the basis of the number of employees in 1994, with an additional DKK 20 million per year for pension expenses; thus the total additional annual expenses would amount to about DKK 60 million.

The arguments to the effect that Combus should only have partial cover of the additional expenses were that the Company would have certain economies of scale and that lack of cover of part of the expenses would encourage the Company to find solutions for the civil servants employed at that time.

The earmarked amount of the provision was emphasised by the Minister for Transport on 25 January 1995 when he replied to a question from the National Organisation of Danish Bus Line Operators. The Minister stated that preferably the amount should be earmarked so it could not be applied for other purposes. On the same occasion the Minister stated that, in particular, the provision of DKK 140 million should not cover the additional annual expenses for salaries, but only the additional expenses for pension and availability pay, if payable, in the first years.

35. It is not clear from the report how the working group has calculated the amount of the provision. To illustrate the appropriateness of the amount (the calculations are based on a presumed real rate of interest of 4 per cent):

- that the present value of the pension differentials until 2005 amounted to more than DKK 130 million,
- that the present value of the availability expenses until 2005 amounted to more than DKK 50 million if 10 per cent were to receive availability pay, and
- that the present value of the entire pension liability towards civil servants only (exclusive of the risk of having to pay availability pay), which Central Government was relieved of by the Company, amounted to about DKK 170 million.

36. In consideration of the assessment of the subsequent course, it should be noted that the working group stated in the report that it preferred a provision instead of proposing current subsidies to the Company. The working group also pointed out that seen over the years the provision was much smaller than the annual burden over the first years of between DKK 40 and 50 million. The liabilities of the Company would increase considerably in spite of a positive financial result because, at the same time, the Company had a liquidity deficit. The reason was that the provisions were not cash deposits, but merely corresponding non-liquid assets. In other words, the provisions would gradually be converted into debt. The Company was founded with a very small margin and with the expectation that about ten years would elapse before the debt situation would change. On the one hand, this also carried the risk that the Company would, for example, have to fold down due to large interest payments. On the other hand, positive economic conditions, etc., might enable the owner to obtain reasonable proceeds.

The additional expenses that would be imposed on Combus because of the civil servants system in comparison with private transport companies could be considered a left-over from Central Government, since expenses for pension and availability pay, which were to be covered by the provision, were expenses payable by Central Government under any circumstances. According to the proposal, Central Government only carried a minor part of the additional burden in the form of a minor amount corresponding to the provision. Thus, it was neither a loss for Central Government, nor subsidies to the Company. On the other hand, Central Government would be able to cut down by gradually terminating the relatively expensive civil servants system.

37. The provision affects both the financial conditions (liquidity) and the accounts. The financial effect is related to the founding phase, in which the temporary conversion of the founder's receivables of Central Government into a provision set up Combus with the desired financing. It could be stated that this influenced the liquidity of Combus because in this way the Company avoided having to service any additional loans in the following years. But

since this alternative was not opted for because it did not provide the desired capital basis for Combust, this remains an entirely theoretical comment.

It should also be noted that this provision for future costs was not made on the basis of the realised operating result. It was a transaction in an opening balance sheet with no considerable liquid funds under assets.

The effect on the accounts is related to the application of the provision. The application does not influence liquidity. The application is an item in terms of bookkeeping, which emerges when the amount of a liability item is deducted from the expenses actually defrayed for salaries, pensions, etc., thus resulting in improved annual accounts. The application does not increase the earnings of Combust and thus its liquidity for real cover of the additional expenses.

Instead of a provision, another possibility was to withdraw a further DKK 140 million from the Company in the form of founder's receivables or have the equity increased by that amount. Withdrawal of the amount would have rendered it necessary for the Company to raise a loan to finance the payment. This possibility was excluded due to the general financial situation of the Company. An increase in the equity would not provide the Company with improved liquidity. However, the consequence would have been that the subsequent financial reporting would have given a clearer view of the financial position. The operating results for the year would have been poorer, since the actual expenses were included in the accounts without any reduction for the provision. Correspondingly, the development in equity would have been clearer.

The application of the provision (whether earmarked or not) means that the provision is "reconverted", not into founder's receivables, but into equity due to better (or less poor) financial results. But since there is no operating basis of the improved results, the lack of cash generated by operations must be procured in another way. The financial effects of the application thus depend on the other transactions made.

Comments of the NAOD

The NAOD notes that the provision of DKK 140 million in the opening balance sheet of the Company did not provide Combust with sufficient liquid funds to cover the additional expenses for pension contributions or the risk of having to pay availability pay. As pointed out, the purpose of the provision is merely to apply it for setting off in the accounts the costs actually defrayed and thus contribute to a more positive financial result. Supply of financial funds proper is a condition for partial cover of the additional expenses, etc., to ensure that the Company is founded on financially "equal terms". On the basis of conversations, minutes examined, etc., the NAOD finds that both in connection with the founding of Combust and in connection with the subsequent transactions not everybody involved has fully appreciated this restriction in the provision as a means of financial compensation.

The NAOD finds it misleading when stated in the explanatory notes that the provision was to partially cover additional expenses. This also applies to the argument in the report of the working group on "only partial compensation for pay differentials" used as a reason for delimiting the field of application of the provision. These statements may give the impression that it is reimbursement proper of expenses paid. It is worth noting that there was no mentioning whatsoever of the fact that the restriction concerning the application of the provision of DKK 140 million only applied to the subsequent possibilities of setoff in the accounts.

The NAOD finds that the Ministry of Transport ought to have made it clear in the explanatory notes to the draft Act on DSB Busser A/S that the partial cover of the additional expenses referred to in the explanatory notes was no cover in terms of liquidity, but a possibility for the Company to give a more positive impression of the financial results.

IV. Competence of the Minister for Transport

38. Combust is a limited company that is wholly owned by Central Government, the Minister for Transport being the only shareholder. As regards Management and laying of annual accounts, the Company is comprised by the rules of the Act on Limited Companies, cf. Consolidated Act No. 545 of 20 June 1996, and the Act relating to certain companies' preparation of annual accounts etc., cf. Consolidated Act No. 526 of 17 June 1996.

39. The shareholders' right to make decisions is exercised by the general meeting. General meetings of public limited companies are open to the press. The general meeting adopts resolutions on approval of the annual accounts and application of profit or cover of losses pursuant to the accounts approved. Any dividend must not exceed what is justifiable considering the financial position of the Company.

Management and the Board of Directors must provide or procure information on all matters of relevance to the assessment of the annual accounts when requested by a shareholder and deemed by the Board of Directors not to damage the Company materially.

40. Thus, formally the shareholders can only exert influence at general meetings; but since votes will always be unanimous at general meetings in a wholly owned company, special circumstances prevail rendering general meeting resolutions unnecessary, at least in respect of a number of accounting issues.

In a statement of 19 August 1991 to the Parliament's Public Accounts Committee pursuant to section 18(2) of the Act on the Auditor General about the public auditor's competence, the Minister of Justice stated, *i.a.*, that in wholly publicly owned limited companies, where no contrary considerations are necessary due to other shareholders, the individual director (both appointed and elected by the general meeting) is entitled, in the opinion of the Ministry, (and obliged pursuant to a possible contract of service) to pass on any information and documents about the circumstances of the Company requested by the Minister in question.

41. The Company affairs are managed by a Management and a Board of Directors. The Board of Directors appoints Management. Management attends to the day-to-day management of the Company and is to ensure, among other things, that the bookkeeping of the Company observes legislation and that the assets are administered in an adequate manner.

The Board of Directors is, *i.a.*, to consider whether the capital adequacy of the Company is sufficient at any time considering the operations of the Company and ensure that

the bookkeeping and administration of assets are checked in a satisfactory manner considering the circumstances of the Company.

Every year Management and the Board of Directors must prepare annual accounts in accordance with legislation and the Articles of Association. The annual accounts must be signed by Management and the Board of Directors.

If a Manager or a Director finds that the annual accounts should not be approved, or if he or she has other objections of which he or she wants to notify the other members of the Company, such a Manager or Director must give an account thereof in his or her report.

Managers and Directors (and founders) who intentionally or negligently have caused damage to the Company are liable to pay damages therefor. This also applies when the damage is caused to shareholders, creditors of the Company or any third party by violation of the Act on Limited Companies or the Articles of Association.

A Director can resign from a Board of Directors at any time, and a Director can also be dismissed at any time by the party who elected or appointed the Director in question.

The Board of Directors is elected by the general meeting. The power to appoint one or more Directors may be vested in public authorities or others by the Articles of Association.

42. Thus, as an example, the Minister for Transport has had the possibility of procuring information through the Board of Directors on the application of the DKK 140 million provision before deciding on approval of the annual accounts in question and thus on the application of the provision in that particular year.

43. The Ministry of Transport has noted that the Ministry needs a reference to the auditors' role. Prior to the approval of the annual accounts at the general meeting and in accordance with the intentions of the legislative material, the Ministry had noted whether the auditors appointed at the general meeting had found any reason to comment on the way in which the Company had applied the provision in the individual financial years. As it appears (from the report), the Ministry could not have got

any other impression at its examination of the annual accounts and notes than that the provision had been applied in accordance with legislation. The Ministry has also noted that the application of the provision for the individual items has not been recorded in minutes or audit reports.

Comments of the NAOD

The NAOD emphasises that the Ministry's possibilities of gaining insight and influence depend on the scope and quality of the information forwarded to the Ministry on a regular basis and upon request as well as the Ministry's handling of such information.

It can be ascertained that the Ministry has not received any information from the annual accounts or audit reports that could raise any doubt about the application of the provision. In the opinion of the NAOD, the auditors appointed by the general meeting, including the NAOD, should have pointed out explicitly that the provision was applied for other expenses than those specifically mentioned in the explanatory notes. The NAOD points out, however, that the Ministry of Transport, as other ministries, has a separate responsibility for ensuring that any special legislation on accounting has been followed.

The NAOD further emphasises that annual accounts and audit reports as sources of information about the financial development of a company are of a very superficial and retrospective nature. It ought to be natural that at least in a wholly publicly owned company, a ministry follows the financial development closely through, *i.a.*, its representative on the Board of Directors. Therefore, the Ministry ought to have been aware of the insufficient financial management of Combust.

V. Application of the provision

44. **Table 2** gives a total overview of the application of the provision in the individual years from 1995 to 1998.

The annual withdrawals can also be found in the annual accounts of the Company.

Table Error! Unknown switch argument.. Specification of withdrawal from the provision 1995 to 1998

	1995	1996	1997	Expected		Total
				1998	1999	
----- DKK million -----						
Pension contributions.....	17.2	16.3	15.6	15.3	-	64.4
Availability pay	-	-	0.3	0.6	-	0.9
Continued pay in case of sickness, etc...	3.7	1.0	2.9	1.2	-	8.8
Severance pay, etc.	-	1.7	0.6	2.1	-	4.4
Differential pay/salaries to redundant civil servants	-	1.4	5.6	1.1	-	8.1
Carried forward	-	-	-	-	4.8	4.8
Remaining provision	-	-	-	48.6	-	48.6
Total	20.9	20.4	25.0	68.9	4.8	140.0
Provision at beginning of year.....	140.0	119.1	98.7	73.7	4.8	
Provision at end of year	119.1	98.7	73.7	4.8	0.0	
Withdrawal of the year	20.9	20.4	25.0	68.9 ¹⁾	4.8	140.0

¹⁾ Including the booking of the remaining provision as income of DKK 48.6 million.

It appears from table 2 that in the period the application comprised expenses for continued pay during sickness, severance pay, salaries to redundant civil servants and the so-called differential pay in addition to additional expenses for pension contributions and for availability pay. Thus, it can be ascertained that the application is not immediately in agreement with the earmarked amount in explanatory notes.

Below is given an account of the application of the provision in the individual years of the period. **Table 3** shows the development in the number of civil servants in Combust during the same period.

Table Error! Unknown switch argument.. Civil servants employed by the Company in the period 1994 to 1998

Statement as at 31 December	1994	1995	1996	1997	1998
	----- Number -----				
Civil servants employed by the Company.....	832	749	689	593	531

It can be seen that the number of civil servants has been reduced by approximately 300 during the period.

A. Application of the provision in 1995 (1st financial year)

45. In the financial year of 1995, a total of DKK 20.9 million of the provision was applied. The application contributed to a book reduction of the actual costs of the Company in 1995, resulting in a correspondingly improved result for the year.

Neither the actual amount, nor the specific application of the amount appeared from the profit and loss account of the Company or the pertaining notes. The amount could, however, be inferred by comparing the opening and end balances of the provision entered in the balance sheet, as in the annual report reference was made to use of provisions. However, it was not apparent to the reader of the accounts that the 1995 profit of the Company of DKK 31.2 million was the result of entering DKK 20.9 million of the provision of DKK 140 million as income.

46. The amount of DKK 20.9 million corresponded to the additional expenses for pension contributions of DKK 17.2 million, and continued pay in case of sickness of DKK 3.7 million. It did not appear from the annual accounts that additional expenses in connection with civil servants' sickness were included in the withdrawal in 1995.

Pensions

47. The amount of DKK 17.2 million concerned additional expenses for pension contributions to civil servants and employees under the collective agreement with the Association of Danish State Employees' Organisations.

Pursuant to the 1995 annual accounts of the Company, the additional expenses for civil servant pensions were calculated as the difference between the employer's pension cost level under the collective agreement between the Danish Bus Owners' Association and the General Workers' Union and the employer's pension contributions for civil servants fixed by Central Government, corresponding to a difference of about 11 per cent.

It did not appear from the annual accounts that the amount also comprised additional expenses in connection

with pension contributions concerning employees of the Association of Danish State Employees' Organisations.

The pension contribution for this group of employees was about 6 per cent higher than for staff employed under the collective agreement between the Danish Bus Owners' Association and the General Workers' Union. It must, however, be assumed that such withdrawal was in agreement with the explanatory notes.

Continued pay in case of sickness

48. Civil servants are entitled to full pay in case of sickness, for which reason the salary expenses of the Company for civil servants remain unchanged in connection with sickness. For employees comprised by the Collective Agreement on Bus Services concluded between the Danish Bus Owners' Association and the General Workers' Union in March 1995, the rules of the Benefits Act apply, i.e., the employee is entitled to benefits if the employment has lasted for at least 13 weeks, or the person in question is entitled to continued pay in case of sickness for 21 days if the person has been employed with the Company for at least nine months.

Private employers shall defray expenses for benefits during the first two weeks of a sickness period, whereas the remaining part of the benefits is payable by the local authorities of the municipality in which the employee resides. An employer providing continued pay in case of sickness is entitled to reimbursement in the amount of the benefits to which the employee would otherwise have been eligible from the local authorities, cf. section 26 of the Benefits Act.

Reimbursement of benefit amounts thus reduced the expenses of Combus pertaining to any sickness of drivers under collective agreements in excess of two weeks. In 1995, no benefit amounts were reimbursed by the local authorities due to civil servants' sickness, since the civil servants were not considered to be comprised by the rules on sickness benefits.

49. On this basis, Combus decided that recovery of costs for sick-pay to civil servants corresponded to the rate of benefits for employees on collective agreements as from the 15th day of sickness, for which reason the provision

was reduced by DKK 3.7 million due to inference by analogy.

The decision to include continued pay to civil servants in case of sickness was not reported in minutes of Board meetings or audit reports.

Being co-auditor and co-signor of the auditor's report of the 1995 annual accounts, the NAOD has ascertained in connection with the examination that in 1995 the NAOD was not aware of the fact that the provision was reduced by the amount paid out as continued pay in case of sickness.

B. Application of the provision in 1996 (2nd financial year)

50. In 1996 the profit for the year was DKK 28.5 million after DKK 20.4 million of the provision had been applied for a book reduction of the actual costs of the Company in 1996.

In addition to additional expenses for pension contributions of DKK 16.3 million, and continued pay in case of sickness of DKK 1.0 million, the amount of DKK 20.4 million now also comprised severance pay, etc., at a total of DKK 1.7 million and pay to redundant civil servants at a total of DKK 1.4 million.

Pensions

51. In 1996, DKK 16.3 million was withdrawn from the provision for additional expenses for pension contributions.

The decrease compared to 1995 must be seen in connection with the fall in the number of civil servants employed by the Company.

Continued pay in case of sickness

52. In 1996, DKK 1.0 million of the provision was used for a setoff in the amount recorded for continued pay in case of sickness. The significant decrease in relation to 1995 is partly due to the decision made by the Benefits Board in September 1996 resulting in the entitlement to have benefit amounts reimbursed in connection with sick civil servants. The Benefits Board stated that the fact that

an employee formally had the status of a civil servant did not prevent the company from being eligible for reimbursement of the benefit amounts. Therefore, in the middle of 1996 the Company ceased to withdraw the calculated non-reimbursed benefit amounts from the provision and started giving notice of sick civil servants to have reimbursement of benefit amounts. Public reimbursements were credited to the account applied for continued pay in case of sickness, which reduced the size of additional expenses pertaining to civil servants' sickness and thus the withdrawal from the provision.

Severance pay, etc.

53. The withdrawal from the provision in 1996 comprised DKK 1.7 million for setting off severance pay, etc., paid out for redundant civil servants after unsuccessful tenders.

Combus has specified the withdrawal of DKK 1.7 million to be DKK 0.55 million for severance pay and DKK 1.2 million for salaries to three redundant administrative civil servants for the period from when they became redundant till they could be transferred to availability pay, be dismissed, etc.

The NAOD has been informed that no availability pay has been paid out before 1997.

54. According to the information received, a total of 29 bus drivers employed as civil servants have received severance pay of DKK 50,000 to 52,000 during the period 1996 to 1998, corresponding to about three months' salary. The scheme has mainly been applied for drivers employed as civil servants in the Storstrøm County, Western Zealand County and Herning Municipality. Here the drivers affected had resigned on the day the new owner took over a former Combus line to become employed, as a main rule, by the private transport company that was awarded the contract. Further Combus has made agreements in respect of resigned, redundant civil servants about an increase of their seniority for pension purposes by up to four years.

In connection with such agreements the Company has paid a lump sum to the Ministry of Finance to cover the additional expenditure of Central Government in connection with the increase of the seniority for pension purposes.

55. The decision on payment of severance pay was made on a commercial basis since Combus was released from the liability of paying availability pay, for which reason the Company decided, according to the information available, to make a withdrawal from the provision in consideration of analogy and to restrict costs.

It did not appear from minutes of Board meetings or the audit reports that the provision had also been applied for continued pay in case of sickness and severance pay.

Salaries to redundant civil servants

56. In 1996, the provision was reduced for the first time by expenses for severance pay and salaries to redundant civil servants who remained employed.

The DKK 1.4 million withdrawal from the provision was used for salaries to 14 civil servants who had become redundant for six months in 1996 due to lost tenders for a number of bus lines. The Company also avoided to place the redundant civil servants on availability pay even though they were redundant and fulfilled the criteria of section 32 of the Civil Servants Act, since it was anticipated that other positions could be assigned to them within a short period.

The civil servants in question were redundant until the middle of 1997, and the full salaries to the drivers in question were withdrawn from the provision during the entire period.

57. The decision to reduce the provision by salaries to redundant civil servants was not reported in minutes of Board meetings or audit reports.

C. Application of the provision in 1997 (3rd financial year)

58. In 1997, the profit of the Company amounted to DKK 7.7 million according to the annual accounts. The profit was the result for the year after DKK 25 million of the provision had been applied for a book reduction of the actual costs of the Company in 1997. The DKK 25 million was used for additional expenses for pension contributions of DKK 15.6 million, continued pay in case of sickness of DKK 2.9 million, availability pay of DKK 0.26 million, severance

pay etc. of DKK 0.6 million, and differential pay and salaries to redundant civil servants of DKK 5.6 million. In 1997, the amount applied was mentioned in a note to the annual accounts stating that the amount had been booked as an income in the profit and loss account and was included in production and administration costs.

Pensions

59. DKK 15.6 million of the provision for additional expenses for pension contributions was an indication of the falling number of civil servants.

Continued pay in case of sickness

60. In 1997, the Company decided to reduce the provision in future – but with retroactive effect from 1995 – by the difference between the rate of sickness benefits and pay to civil servants as from their 15th day of sickness because the Company was awarded reimbursement of the benefit amount. The amount withdrawn in 1997 thus corresponded to the difference between benefits and salaries to civil servants from 1995 to 1997 less public reimbursement received in 1997. This meant that in 1997 DKK 2.9 million of the provision was used as setoff of continued pay in case of sickness.

Availability pay

61. In 1997, Combus paid out availability pay for the first time corresponding to DKK 0.26 million.

Severance pay, etc.

62. Severance pay and salaries to the three redundant administrative civil servants mentioned in paragraph 53 reduced the provision in 1997 by about DKK 0.62 million, which may seem little at first. It should be noted that in connection with tenders in 1997, Combus lost 17 bus lines, but was awarded contracts for 128 new bus lines. However, the distribution of civil servants on the various bus services differed. Therefore loss of lines did not always mean redundant civil servants. The low expenses for severance pay must also be seen in relation to the

amount under the item differential pay, which also includes salaries to redundant civil servants, etc.

Differential pay and salaries to redundant civil servants

63. As from 1997, the Company applied differential pay proper. The Company chose to restrict the additional expenses related to redundant civil servants by applying the employees in question as substitutes for or replacements of drivers under collective agreements who had resigned instead of paying availability pay to the civil servants in question.

64. In 1997, the provision was thus reduced by the full salaries to redundant civil servants as well as the difference between the wages of a driver under a collective agreement and a driver employed as a civil servant for the period during which the civil servant in question was employed in a position that a driver under a collective agreement would otherwise have held.

65. The Company calculated the differential pay on the basis of a formula based on a comparison between the salary/wage cost per effective hour for civil servants and drivers under collective agreements, respectively, corresponding to a differential pay of about DKK 22,000 each year. The calculation of the amount withdrawn from the provision was made centrally on the basis of information from the individual bus areas on the number of civil servants that were rendered redundant, including the number of civil servants to whom another position had been assigned that was previously held by staff on collective agreement.

66. In the minutes of the Board meeting on 28 to 29 August 1997, a new tender philosophy was referred to in connection with tenders for bus lines that had so far been serviced by civil servants. From these minutes it appeared that in case a financial loss is expected in connection with tenders based on salaries to civil servants, the additional expenses related to civil servants could be omitted from the tendering and instead be defrayed via the provision. It appeared, however, from the auditor's report for the financial year 1997 and the material received concerning

specification of the withdrawal from the provision in 1997 that the item differential pay only comprised civil servants who had become redundant in connection with lost tenders for bus service.

The Company has stated that the above tender philosophy was applied, but that it had not applied the provision for that purpose. According to the information available, Combus has thus at no time applied the provision to cover the difference between the wages for drivers under collective agreements and salaries to civil servants on lines serviced by civil servants. For such lines the concept “differential pay” has exclusively been applied as a calculation parameter in connection with the submission of tenders.

It did not appear from the audit reports that the withdrawal from the provision in 1997 was also used for continued pay in case of sickness and severance pay.

D. Planned application of the provision in 1998 (4th financial year)

Pensions and continued pay in case of sickness

67. According to the 1998 draft annual accounts of the Company, that year the amounts used for pensions and continued pay in case of sickness were DKK 15.3 million and DKK 1.2 million, respectively.

Availability pay

68. In 1998, the provision was reduced by DKK 0.59 million for availability pay.

Severance pay, etc.

69. In 1998, the provision was reduced by about DKK 2.1 million under the item severance pay, etc. The large increase compared to previous years must presumably be seen in connection with a decrease in the payment of differential pay.

Differential pay and salary for redundant civil servants

70. Under a corresponding paragraph concerning 1997, an account has been given of the withdrawal from the provision made by the Company for full salaries to

redundant civil servants and differential pay to civil servants doing assignments previously attended to by employees on collective agreements. It appears from the minutes of the Board meeting on 31 March 1998 that, from 1998, the Company would submit tenders on the basis of the wages for general workers and refer the pay differential to the provision when it was a tender for lines serviced so far by civil servants. The alternative was, if the Company lost services due to the higher salaries of civil servants, that the Company would have to withdraw even larger amounts from the provision to cover the availability pay.

71. According to the information available, no salaries were paid to redundant civil servants in 1998. DKK 1.1 million was withdrawn from the provision, which was differential pay concerning a total of 58 civil servants. The lower withdrawal from the provision in 1998 for differential pay must be seen on the basis of the fall in the total number of civil servants, the increase in severance payments made and the fact that, in several cases, the lines lost in 1998 were lines for which the Company was awarded the contract in connection with the previous tender, for which reason mainly drivers under collective agreements were employed on the lost lines.

72. In March 1998 the Company submitted the question of differential pay and salaries to redundant civil servants to the Company lawyer, who then prepared a memorandum which accepted, with modifications, an expanded application of the provision. However, it was noted in this memorandum that the result was uncertain to some degree. Based on the draft report of the NAOD, which have been submitted to the Ministry for hearing, the Ministry of Transport stated that the issue of use of the provision has been discussed with the Attorney to the Danish Government, who noted that the additional application of the provision should not trigger any criticism of the Company, since apparently this does not constitute any problems under competition law. It should be noted, however, that in respect of differential pay, and apparently only the variant used in connection with calculation of tenders, the application of the provision for this purpose is

incompatible with the explanatory notes to the Act on DSB Busser A/S.

Final setoff of the provision

73. The Company has stated that it plans to book an additional DKK 48.6 million as income in the 1998 annual accounts. The amount constitutes the remaining part of the original provision of DKK 140 million when DKK 4.8 million of the provision has been reserved for the calculated additional expenses in 1999.

The final setoff of the provision and the reservation concerning additional expenses in 1999 have been planned because of the adoption on 18 December 1998 of the Act Amending and Repealing the Act on DSB Busser A/S and Amending the Act on the Independent Public Corporation DSB (the Danish State Railway) and on DSB S-tog A/S.

74. The basis of the Act was a political agreement on the 1999 Finance Act to the effect that the an attempt should be made to dispose of the shares of Central Government in Combis in 1999. In connection with the disposal, the legal position of seconded civil servants was to be determined.

It appeared from section 3 of the Repeals Act that the seconded civil servants were offered transfer to employment under collective agreements as at 1 April 1999 against a lump sum remuneration corresponding to almost the annual pay, increase of their seniority for pension purposes by up to four years, or a combination of both possibilities. It was a consequence of the explanatory notes that following the transition to employment on collective agreement terms, the civil servants would be covered by a transitional collective agreement for a period of up to five year, the purpose of such agreement being to ensure that the persons in question would not experience a reduction of their pay.

The former civil servants would then be comprised by the Act on the Legal Position of Employees in connection with Mergers and Acquisitions. The anticipated outcome was that Combis would be on equal terms with other companies in connection with any future tenders for bus lines, which had previously been serviced by civil servants, since they had now become “transferable”.

Therefore it must be assumed that future tenders will be based on the actual wage cost since the successful tenderer in connection with the bus service will be obliged to take over the employees, including former civil servants.

75. It also appeared from section 3 of the Repeals Act that the Danish State Railway should offer another suitable job to the seconded civil servants who would not accept employment with the Company under collective agreements, cf. section 12 of the Act on Civil Servants, and defray any related expenses.

E. Total overview of the application

76. Whether the provision was applicable for other purposes than payment of pension contributions and expenses for availability pay, such as expenses replacing availability pay, is a question of interpretation of the explanatory notes.

It should be noted that the wording “partial cover of ... the additional expenses for pensions and the risk of having to pay availability pay” is applied in the explanatory notes. The NAOD finds that the words “partial cover” do not open up the prospect of applying part of the provision for other purposes. It appears both from the comments of the Minister for Transport to the reply to the hearing from the National Organisation of Danish Bus Line Operators, which is applicable as an interpretation of the intentions of the Act, and from the report from the working group that the intention was for the provision of DKK 140 million to cover only part of the additional expenses for pensions and availability pay during the first years, and then the need for the provision should be reconsidered.

The working group emphasised that the Company was to charge additional expenses to the profit and loss account, which should encourage the Company to solve the civil servants problem itself.

77. The Company has noted that it followed section 2(1) of the Act on DSB Busser A/S from which it appeared that the Company should be run on commercial terms.

It is thus the obligation of the Board of Directors and Management to restrict losses to the widest extent possible. As considerable expenses are connected with

transfer of civil servants to availability pay, it was considered justifiable on the basis of the liability to restrict losses and a purposive construction of the rule on the provision of the Act on DSB Busser A/S to set off the expenses incidental to the alternative solutions via the provision.

78. **Table 4** gives a statement of the part of the withdrawal from the provision that concerns additional expenses that should not be included in the earmarked amount in the opinion of the NAOD.

Table Error! Unknown switch argument.. Withdrawal from the provision not comprised by the earmarked amount

	1995	1996	1997	Expected		Total
				1998	1999	
----- DKK million -----						
Continued pay in case of sickness, etc. .	3.7	1.0	2.9	1.2	-	8.8
Severance pay, etc.	-	1.7	0.6	2.1	-	4.4
Differential pay/salaries to redundant civil servants	-	1.4	5.6	1.1	-	8.1
Unauthorised withdrawal from the provision.....	3.7	4.1	9.1	4.4	-	21.3

Comments of the NAOD

The Company has reduced the provision by other additional expenses related to the civil servants than those referred to directly in the explanatory notes. While the additional expenses earmarked in the explanatory notes were for pensions and availability pay, it appears from the investigated material that already from 1995 the Company chose to reduce the provision by the additional expenses related to civil servants' sickness, from 1996 also by additional expenses for severance pay and wages for redundant civil servants, and from 1997 further by differential pay.

The NAOD has thus ascertained that an average of DKK 5 million per year or a total of about DKK 21.3 million of the original provision of DKK 140 million has been applied for other expenses than those laid down in the explanatory notes. The Company has stated that one reason why it used the provision also for other types of expenses was that the Company was to be operated on commercial terms, cf. the Act on DSB Busser A/S, for which reason it was the obligation of the Company Management/Board of Directors to reduce the risk of

losses. Since the provision did not reduce the actual additional expenses of the Company, the NAOD finds that the consideration of limiting losses is irrelevant seen in relation to the provision. In the assessment of the NAOD, the clear limits set out in the explanatory notes and other legislative material do not authorise any other application of the provision.

The NAOD has noted that application of the provision for continued pay in case of sickness and severance pay is not mentioned in minutes of Board meetings and audit reports.

VI. Financial development in Combust from 1995 to 1998

79. At the founding of Combust in 1995, the equity was made up of share capital of DKK 65 million and premium at issue of DKK 53.6 million, totalling DKK 118.6 million, and has been increased by the annual results to a total of DKK 186.1 million in the period ending 1997. For 1998, a negative result is expected, thereby reducing the book equity to DKK 47 million.

80. Development in the turnover, result, assets and equity of the Company is illustrated in [table 5](#), which is based on the information of the annual accounts of the Company.

Table Error! Unknown switch argument.. Turnover, result and assets 1995 to 1998

	1995	1996	1997	1998 ¹⁾
	----- DKK million -----			
Bus line and coach service in Denmark.....	519.4	548.4	587.6	907.3
Bus line and coach service abroad.....	13.4	21.2	23.7	25.2
Other income	6.1	5.6	8.9	17.0
Total net turnover	538.9	575.2	620.2	949.5
Profit before financial items	29.8	30.4	11.9	(48.3)
Financial items, net.....	3.3	(0.4)	(5.3)	(25.0)
Tax on profit for the year.....	(1.9)	(1.5)	1.1	0
Profit/loss for the year.....	31.2	28.5	7.7	(73.3)
Loss after extraordinary items	-	-	-	(139.1)
Assets.....	713.6	564.0	819.6	1.130
Equity.....	149.8	178.4	186.1	47.0
¹⁾ The 1998 figures are provisional.				

It appears from table 5 that the turnover of Combus has increased heavily since the founding in 1995. Costs have, however, increased even further, leading to a steep fall in the result for the year 1997 and for the year 1998 in particular.

The 1998 accounts are expected to be extraordinarily charged with DKK 65.8 million in the form of other provisions, etc.

The NAOD has had no opportunity to analyse the specific reasons for the very negative development in the financial situation of the Company. The NAOD has noted that a number of financially favourable standard contracts expire in 1999, but has not had any possibility of assessing the extent of the continued negative development.

The reduction of the Company assets from 1995 to 1996 originated mainly in a steep fall in the liquid funds of the Company.

The 1997 increase was due mainly to higher amounts receivable from associated companies. The 1998 increase can be attributed mainly to the acquisition of buses. The buses have been leased. This acquisition is therefore set off by a corresponding leasing debt.

81. As already mentioned, the application of the DKK 140 million provision has influenced the annual profit or loss and the development in the Company equity. All other things equal, the degree of influence is illustrated in [table 6](#), which compares the profit/loss and equity according to the annual accounts of the Company with profit/loss and equity calculated without including the annual withdrawals from the provision, cf. table 2.

Table Error! Unknown switch argument.. Profit/loss on primary operations and equity compared with result and equity calculated without any withdrawal from the provision and extraordinary items

	1995	1996	1997	1998 ¹⁾
	----- DKK million -----			
Profit/loss on primary operations according to annual accounts	31.2	28.5	7.7	(73.3)
Less withdrawals from provision during the year.....	20.9	20.4	25.0	20.3
Profit/loss exclusive of withdrawals from provision	10.3	8.1	(17.3)	(93.6)
Equity at year-end according to annual accounts	149.8	178.4	186.1	112.8
Less accumulated withdrawals from provision	20.9	41.3	66.3	86.6
Equity exclusive of withdrawals from provision	128.9	137.1	119.8	26.2
¹⁾ The 1998 figures are provisional.				

It appears that the withdrawals from the provision have had a very dramatic effect on the accounts.

It should be noted that the results for the years have also been affected by the movements in other minor provisions.

82. The effect on the accounts would obviously have been smaller had the Company only booked the earmarked provisions as income. The lack of liquidity to cover the additional expenses as well as the tender policy of the Company and development in bus services have contributed to an increase in the debt of Combus, cf. [table 7](#).

Table Error! Unknown switch argument.. Development in debt and equity of the Company

	Beginning of 1995	1995	1996	1997	1998 ¹⁾
----- DKK million -----					
Bank loans	-	113.7	113.7	398.7	603.7
Leasing debt	-	-	-	-	211.6
Total long-term debt.....	-	113.7	113.7	398.7	815.3
Account with the Danish State Railway.....	107.4	186.1	8.7	-	-
Other debt.....	74.4	120.6	143.7	139.4	138.8
Total short-term debt.....	181.8	306.7	152.4	139.4	138.8
Total debt.....	181.8	420.4	266.1	538.1	954.1
Equity.....	119.0	149.8	178.4	186.1	47.0
¹⁾ The 1998 figures are provisional.					

It can be seen that the total debt of Combus increased heavily from 1995 to 1998. The temporary decrease in 1996 can be referred to the reduction of the account with the Danish State Railway, which caused a reduction of the liquid funds of the Company.

83. Since the debt from 1995 comprised a loan from the Mortgage Bank (now the Financial Administration Agency), the NAOD requested the Financial Administration Agency in February 1999 to provide a description of the terms of the loan.

The Financial Administration Agency has replied that the Mortgage Bank granted a floating rate loan for DKK 53.7 million in 1995. Interest is paid on the loan according to the so-called CIBOR interest plus an additional amount (CIBOR = Copenhagen Inter-Bank Offered Rates).

Combus has stated that the Company has subsequently negotiated loans with other banks on generally better terms.

Comments of the NAOD

The operating profit/loss of the Company has had a negative trend, particularly in 1998 where the anticipated result for the year is a considerable operating loss. The Company has experienced a significant increase in turnover, but proportionally expenses have increased even further.

VII. Tenders submitted by the Company

A. Submission of tenders

84. The procedure for submission of tenders can roughly be described as follows:

On the basis of public procurement advertisements published in the Official Journal, Combus requisitions the tender documents from the contracting transport corporations. Then a number of meetings are held between the bus divisions affected by the tender and the contract department of the Company. The calculation of the individual tender is made on the basis of the information and experience obtained from the bus divisions. Information on the estimated number of buses and drivers required as well as administration costs, etc., are entered in a computer program developed by the Company. This program calculates the total expenses for the individual tender. Tenders are prepared in close co-operation with the managers of the bus areas in question. The tender is forwarded to the contracting corporation.

The normal term from the advertisement in the Official Journal to the last date for submission of tenders is 52 days. Then the decision will follow in about six weeks. Normally the entire process from the advertisement to the possible operation can commence lasts between six months and one year.

Tenders must, as a main rule, contain information on the following parameters:

- driver costs in Danish kroner for each time-schedule hour (DKK per hour under the regular schedule)
- other variable costs for each time-schedule hour
- bus-dependent costs in Danish kroner for each month of bus operation (DKK per month per bus in operation as from the first full month the bus runs under the contract)
- total annual price

Tenders submitted to Copenhagen Transport must state the following information:

- fixed monthly costs
- bus-dependent costs for each month per bus
- bus costs for each scheduled bus hour (DKK per hour under the regular schedule)
- total price for an ordinary month (DKK for 22 workdays plus 4 Saturdays plus 4 Sundays)

The major difference between the two presentation methods is that outside the Greater Copenhagen area the amount in Danish kroner for each time-schedule hour is generally applied as the key figure, whereas the key figure applied within the Greater Copenhagen area is the amount in Danish kroner per scheduled bus hour. The amount in Danish kroner for each time-schedule hour is the costs related to running the bus for one “efficient” hour, i.e. exclusive of any waiting time at terminal stations. The amount in Danish kroner for each scheduled bus hour is the costs related to running the bus for one hour, including stop(s) of up to 20 minutes, e.g. waiting time at a terminal station. This structure takes into consideration, among other things, the fact that within the Greater Copenhagen area the distance between the terminal stations is shorter.

B. Result of tenders submitted

85. Combus has been very active in connection with tenders in recent years. Competition in the bus transport sector has been highly intensified in the same period. From 1994 to 1997 prices for bus services fell by an average of 15 to 17 per cent in fixed prices. The reduced prices have rendered it necessary for the individual bus companies to find substantial operation retrenchments.

Lower expenses have not been enough to meet the lower prices. It has been necessary to reduce earnings. An examination performed by the Danish Transport Council in 1998 shows that the main part of the reduction of prices during the period has been financed by a reduction of the profit of the companies.

Table 8 shows the results of tenders submitted by Combus.

Table Error! Unknown switch argument.. Result of tenders submitted by Combus

Commencement year	Tenders invited	Successful tenders for old services	Successful tenders for new services	Lost services	Additions, net
	----- Number of buses -----				
1995	447	136	59	4	55
1996	769	94	44	17	27
1997	237	0	128	17	111
1998	790	33	159	85	74
Total	2.243	263	390	123	267

86. Table 8 shows that a total of 237 buses were put out to tender in 1997. Of these 237 buses, Combus had 17. The 17 buses were operated under a contract with the West Zealand Traffic Authority. Combus submitted tenders for 236 buses, or almost 100 per cent. The result of the tenders was that Combus gained a net increase of 111 buses. Combus was thus awarded contracts in connection with almost half of the tenders and had to set up business in a number of new areas. The successful tenders were mainly submitted in the Greater Copenhagen area in connection with invitations issued by Copenhagen Transport. In 1998, 790 buses were put out to tender. Combus submitted tenders for 748 buses. Combus itself had 118 buses comprised by the tenders. Combus was only awarded contracts for 33 of these buses. Altogether 1998 saw a net increase of 74 buses, i.e. the Company was awarded contracts for 159 new buses, but had to give up 85 buses. Most of the buses gained were to service in the Greater Copenhagen area.

The trends in 1997 with many new areas in which the Company had to set up business continued in 1998. But at the same time, in 1998 Combus lost almost two thirds of the buses that the Company had operated before.

This gave rise to increased expenses because, due to initial expenses and little knowledge of the level of expenses and the organisation, it is more expensive to be awarded contracts for new bus lines than to succeed in retaining old lines. The net increase gained was thus expensive. During the previous years 1995 to 1996, the retained services amounted to the majority of the successful tenders, cf. table 8.

C. Examination of tenders

87. The NAOD has examined the calculation policy of Combust based on two main tenders in 1997, when Combust submitted tenders for a total of 350 buses and was awarded contracts for 119 buses to take effect in 1998.

88. The conditions of the tenders are listed in a rather detailed form.

First, information is given on the calculated number of time-schedule hours, kilometres, buses and drivers.

Then the sum is calculated for the following main items on the basis of the specifications.

- a. Pay to drivers (standard hours, additions, pension, holiday, etc.)
- b. Other staff costs (uniforms, training, insurance, contributions, etc.)
- c. Other costs/income (administration, fuel, mechanics, cleaning, insurance, rent, advertising income, etc.)
- d. Financing costs (depreciation and interest)
- e. Commission

89. As regards items a, b. and c, the calculation of costs is made mainly on the basis of the expected consumption of various units (hours, busses, persons, kilometres, etc.) multiplied by the unit rates. The NAOD finds that a detailed calculation of the expected cost is made. Since the bookkeeping of Combust does not allow for cost accounting, it is not possible to verify whether there is accordance between actual and expected costs and whether the cost units defined are sufficient and/or how the calculated unit costs relate to the actual costs

It must be considered a deficiency and a commercial risk that a business based on tenders to such a high degree has not taken any measures to control the quality of the tenders submitted. The commercial risk is intensified by the fact that the margins that are to cover uncertainty and profits, have seen a continuing downward trend.

90. In those cases where tenders concerned service performed so far by Combust with drivers employed as

civil servants, the Company based its tenders on pension expenses in relation to drivers under collective agreements and included more sick-days for civil servants.

As already mentioned, Combus also based calculations on wages for general workers as from 1997. It was presupposed that the additional expenses related to salaries to civil servants were covered by the provision. The reason was that the Company could not afford to loose services operated by civil servants because of the rules of the Mergers and Acquisitions Act.

The decision to use the wages for general workers in connection with tender for services operated by civil servants was reported to the Board of Directors of the Company at a Board meeting on 28 to 29 August 1997. From these minutes it appears that in case a financial loss is expected in connection with tenders based on salaries to civil servants, the additional expenses related to civil servants can be omitted from the tendering and instead be defrayed via the provision.

Subsequently the Board of Directors of the Company decided on 30 March 1999 not to execute this decision.

91. The contribution for the profit of the Company is to be found under items d and e, financing costs in the form of depreciation as well as interest and commission, respectively.

As already mentioned, the bookkeeping of the Company does not allow for cost accounting. Therefore it is not possible to make a precise assessment of whether bus services obtained on the basis of a successful tender yielded any profit, and if so to what extent. The Company has stated that it did not deliberately calculate with a loss seen over the entire contractual period and over the entire service area when preparing its tenders.

In order to make a tentative assessment of the size of the surplus contributions, the NAOD has compared selected tenders with an “average tender” calculated on the basis of the 1997 profit and loss account of the Company.

Thereby the NAOD ascertained that in connection with the calculation of some tenders, circumstances applying specifically to the particular tender have been taken into consideration.

The result is that the amounts calculated for depreciation and interest are lower than the amounts of an average tender.

The NAOD also noted that when the Company included the calculation of the return of the investment that was to contribute to the profit, the rapidly increasing expenses for interest payable on the loan capital was generally not taken into consideration to a sufficient degree.

92. As regards commission, which is included as a risk premium in addition to all other costs, the NAOD has stated that Combustion basically calculated a relatively low commission on the overall costs pertaining to a tender.

In few cases, the commission was somewhat lower. This commission policy was based on the fact that it might be more expensive to be an unsuccessful tenderer than to service a line at a smaller profit for a period.

The NAOD has noted that there is no unambiguous correlation between the tenders with the lowest calculated commissions and the successful tenders.

It seems risky to fix the commission at such a low rate as has been done in some cases. Only little room is left for contingencies, and it gives a very narrow margin between profit and loss. Particularly, as mentioned above, because the Company had already reduced margins on a number of other items.

93. The very small margins applied in some cases in connection with tenders carry the risk that bus services may be operated at a loss even when based on the assumption that the additional expenses for salaries and pensions for civil servants could be defrayed via the provision.

It is obvious to assume that this has been a contributory cause of the poor 1998 result of Combustion.

Comments of the NAOD

In the opinion of the NAOD, the application of the provision has not, in itself, caused distortion of competition.

However, in relation to other bus companies, additional expenses and the risk of having to pay availability pay have been imposed on Combustion due to the civil servants taken

over. To avoid payment of availability pay, the Company submitted tenders for lines serviced by civil servants with almost insignificant profit margins and based on wages for general workers. Because of the non-existent cost accounting in respect of the individual lines, the Company has not been able to verify that it has not submitted tenders for some bus lines with a negative profit margin.

The NAOD finds that Combus has displayed imprudence in connection with recent years' tender policy. To a certain extent the Company has made its calculations on the basis of an intention to mitigate losses and has, at least in some of its tenders, included a very narrow earnings potential without possessing the requisite knowledge of whether the present cost accounting basis in general was sufficient and without having effected any subsequent control of it.

The NAOD finds that the tender policy of Combus has not been financially viable.

Copenhagen, 2 June 1999

Morten Levysohn
Acting Auditor General

/Poul-Erik Olsen

Comments of the Parliament's Public Accounts Committee

This report is subject to the rules of the Act on the Auditor General on a subsequent statement from ministers and pertaining comments of the Auditor General. The Public Accounts Committee will consider the matter finally when submitting the final report on the Public Accounts to Parliament.

The Public Accounts Committee finds that the Minister for Transport has attended to the proprietary interests of Central Government in a very criticisable way.

Combust a/s was founded on the basis of a framework agreement on the Danish State Railway for the period 1995 to 1998. The object of the Company is to carry on bus service on commercial terms, and at the founding of the Company the founders were aware that the special financial obligations in relation to staff rendered necessary a provision of DKK 140 million for pension and availability pay to improve the possibilities of the Company to survive under more severe competition. Thereby the Company only had partial cover of the expected burden, and it was not cover in the form of liquidity. Therefore the officials of the Ministry of Transport were aware of the risk that, on the one hand, the Company would have to fold down due to large interest payments, and on the other hand, that positive economic conditions might yield a reasonable return to the owner. The Public Accounts Committee finds that this knowledge gave the Minister for Transport greater responsibility for supervising the development in the financial situation of the Company closely.

The Public Accounts Committee considers it unsatisfactory that the Company auditor was not aware that Combust applied DKK 21.3 million of the special provision contrary to the intentions of the earmarked amount disclosed to Parliament in the explanatory notes.

It appears from the report that the financial result of the Company for 1998 shows considerable deterioration, that the financing of the Company has seen a particular negative trend – particularly combined with the higher level of activities – and that the tender policy of the Company has been financially imprudent in recent year so that in future part of the production will be unprofitable. It also appears that the internal Company accounts do not include any recordings that can form the basis of cost accounting.

The financial transactions of the Company have not been financially viable. Therefore the Public Accounts Committee expects the Minister to specify in his statement to this report a probable way of reverting the financial development.