
SUMMARY

Summary of Report 27/2015, relating to the railway company Ferrocarril Metropolità de Barcelona, SA, year 2012

Barcelona, 17 February 2016

The Public Audit Office for Catalonia has issued Report 27/2015, relating to the railway company Ferrocarril Metropolità de Barcelona, SA (FMB), financial year 2012, in accordance with its Annual Programme of Activities.

The report, which was presented by Board Member Ms Maria Àngels Servat, was approved by the Audit Office Board at its meeting on 15 December 2015, with two dissenting votes, against approval, by Board members Mr Jordi Pons and Ms Emma Balseiro.

The audit was a regularity audit of FMB's General Account for the 2012 financial year, to check whether it had been drawn up in accordance with the applicable financial reporting regulatory framework and, in particular, the accounting principles and criteria contained in that regulatory framework. It also included verifying that in the period covered by the audit FMB carried out its activities in accordance with applicable legislation.

FMB is a joint stock company wholly owned by the public sector, with 100% of shares held by the Barcelona Metropolitan Area (AMB). It began operating on 31 December 1924. Its main activity is underground mass passenger transportation in the city of Barcelona and other municipalities in the surrounding metropolitan area, in coordination with the AMB and the Metropolitan Transport Authority (ATM).

FMB provides transport services for 2.4 million inhabitants in eight municipalities, over eight metro lines with a total length of 104.9 km (65.2 miles) and with 139 stations and 165 trains. FMB has ownership of 66 of these trains and leases the rest from the ATM. Metro lines 9 and 10 were built by IFCAT, which transferred usage rights to FMB for an annual fee of €49.74m.

FMB's activities are financed through direct revenues from ticket sales (€255.40m in 2012) and, for the shortfall, by grants from the Spanish central Government, the Catalan Government, Barcelona City Council and the AMB. Their annual subsidy commitments are laid down in a programme-contract (€187.54m in 2012). The amount owing to FMB from this programme-contract as at 31 December 2012 was €228.85m.

As a result of the agreement by the ATM to guarantee the funding of public transport and help restructure the accumulated debt, on 6 November 2014 FMB signed a debt refi-

nancing contract with financial institutions for €472.30m which expires on 31 December 2031, backed by a bank guarantee from Barcelona City Council and a commitment from the ATM to pay FMB an earmarked grant for the same figure as the commitments acquired.

In the Audit Office's opinion, except for the possible effects of the matters described in findings 5, 6 and 8 of the report, FMB's annual accounts for the financial year 2012 represent, in all significant aspects, a true and fair view of its assets and financial position as at 31 December 2012, and its operating results and cash flow for the financial year ending on that date, and contain all necessary and sufficient data to be properly interpreted and understood, in accordance with applicable accounting principles and standards.

Findings 5, 6 and 8 in the report are as follows:

- The assets whose building costs were paid for by the Government of Catalonia and other governments, whose usage was transferred to FMB between 1967 and 2011 and which come to a total of €1,086.93m, were never included on FMB's Balance Sheet, and have never been depreciated.
- The balance due to FMB for contributions from the programme-contract for 2011-2012 includes €11.81m which has not been recognised by the ATM and for which no commitment exists to include it in future budgets. FMB should not have recognised this amount as revenue in its Profit and Loss Account, or as a payment pending from the ATM.
- To comply with Royal Decree-Act 20/2012, FMB suspended one of the staff's two annual bonuses by withholding a fourteenth of basic salary plus length of service supplement, without applying this measure to productivity or to any of the other additional wage items due to members of staff. Furthermore, the application of the Staff Agreement of 5 December 2012, which extended holiday leave by one month in lieu of paying one fourteenth of basic salary plus length of service supplement in 2015 (paid as an advance in December 2012), was in violation of the said Royal Decree-Act, because it meant paying employees an amount equivalent to the reduction this statutory instrument required.

Other significant findings and recommendations are as follows:

- The AMB Comptroller's Office (*Intervenció*), which had responsibility for the comptroller-ship function over FMB, issued no financial control report for the 2012 financial year.
- Only sixteen of the fifty trains leased from the ATM and initially destined for Line 9 were actually in service on that line. Of the remainder, twenty-six trains were allocated to renewing or increasing the rolling-stock on line 2 and line 4, and eight were not in active service. In addition the six trains included in the accounts as assets in progress were not placed in service, although they had been received between March and June 2011. Therefore, no depreciation amount was included in the accounts; neither was the corresponding part of the subsidies used to fund them reclassified as revenue.

- In the Procurer's Profile on the FMB web page, no information was given on who approved the Internal Procurement Instructions or the date when they were approved. Also, these instructions did not deal with aspects such as guarantees, contract modifications and contract extensions. And in contract files audited there was no evidence that the documents of tendering specifications and conditions had been approved by the official in charge of procurement.
- In the assessments in seven procurement files from the audited sample the formulae used to assess the offers received gave very similar points to the cheapest and most expensive offers, thereby effectively reducing the weighting given to price as opposed to technical features. In addition, the official specifications did not establish the objective criteria to be met in order to calculate the points assigned to each tender; this allowed too much discretionary leeway when it came to assessing them.
- In the majority of the procurement files analysed with amounts over the low-value contract threshold, the corresponding contract was not drawn up and signed and, in two cases, the signed contract included modifications to essential features. A new tendering process should therefore have been undertaken, to allow other possible tenderers to compete on an equal footing.
- In contracts for the purchase of coded material worth less than €50,000, the self-same department for supplies was in charge of making the awarding decision. And depositing the legally required guarantee was not enforced in contracts for purchasing coded material and in contracts for amounts below €200,000.
- As regards the internal control system, the Audit Office recommends curtailing the banking powers given to officials in FMB's management, lowering their operating limits and requiring more than one signature. Furthermore, it recommends reducing the number of generic IT users and restricting access to databases on personnel and suppliers to staff members with responsibilities for these functions.

This summary is solely for information purposes. The audit report (in Catalan and Spanish) can be consulted at www.sindicatura.cat.