

Governance and financial statement auditing for subsidised transport companies

In the case of subsidised transport companies, the auditor's role is to deliver an opinion as to whether the audited annual financial statements comply with the applicable financial reporting standards. Verifying adherence to the terms and conditions of subsidies received does not form part of this audit mandate. However, it is likely that the audit profession will be responsible for carrying out a special audit of subsidies from 1 January 2021, acting almost as an extension of the competent Swiss Federal Office of Transport (FOT). This is because, in resolving instances of irregularities in the subsidies granted to public transport companies, it became apparent that the FOT was unable to fully perform its control function due to a lack of resources.

Take-Outs 1/2

1. The board of directors and senior management of subsidised companies must ensure compliance with the terms and conditions of the subsidy and that taxpayers' money is used responsibly.
2. The Swiss Federal Office of Transport (FOT) must perform its own checks to ensure that the subsidies financed by citizens' taxes have been duly awarded and used for the intended purpose.
3. Up to now, statutory auditors have not been mandated to verify the legitimacy of the subsidies received (no audit of the specific accounts as part of the audit of the financial statements). Their mandate consists of auditing the financial statements in order to ensure that external stakeholders are able to have confidence in the transport companies' financial statements.
4. Due to limited in-house capacities, the FOT was unable to perform its controls to an adequate extent in the past. This became apparent in 2018 when it was revealed that Postbus Switzerland had been making false entries in its subsidy accounts for years and was thus able to obtain excessively high subsidies.

Take-Outs 2/2

5. Following resolution of the events at Postbus, the legal requirements have been amended and the FOT's personnel resources have been increased.
6. The management of all transport companies must now expressly confirm on an annual basis compliance with the requirements relating to the subsidies received. As part of its extended checks, the FOT will in future conduct risk-based audits of the companies' accounts. In addition, transport companies that receive subsidies totalling more than CHF 1 million each year must in future (from 2021) undergo a special audit of the subsidies received. They must engage an audit firm to conduct this audit. Audit firms investigate specific, prescribed questions regarding compliance with the Swiss Subsidisation, Rail and Passenger Transport Act (as an extended arm of the FOT).
7. The enhanced overall governance system (collaboration between transport companies, the FOT and audit firms) increases the certainty that taxpayers' money (subsidies) will be used for the intended purpose.

Governance in subsidised transport companies

It is the responsibility of the board of directors and senior management to ensure that a company acts ethically. For companies that receive taxpayers' money in the form of government subsidies, their boards of directors and management must also ensure compliance with the terms and conditions of the subsidies.

In addition, in the case of subsidised transport companies, the Swiss Federal Office of Transport (FOT) must perform its own checks to ensure that subsidies have been duly awarded and used for the intended purpose.

In the case of transport companies that are legally required to have their financial statements audited, the statutory auditor engaged by the company owners is not mandated to verify the legitimacy of the subsidies received.

In other words: The statutory auditor audits the annual financial statements required to be prepared under financial reporting law for compliance with this same law. In contrast, it is the duty of the FOT to check the compliance of the cost accounts prepared under subsidy law with the subsidy requirements provided for by law and the FOT.

Limits of the previous control procedures

It is true everywhere that even the best controls cannot find every error or prevent misconduct. A statutory auditor audits financial statements. The focused audit procedure and the clearly limited statutory duty only provides indications of potential abuses with regard to subsidies in exceptional cases. In such cases, the auditor is required to discuss these indications with the company's management. However, due to the legal duty of confidentiality, the statutory auditor is not permitted to notify law enforcement authorities or regulatory bodies.

The regulatory body responsible for transport companies, the FOT, has up to now had limited and inadequate in-house personnel resources in the area of audit. Consequently, subsidy audits were ultimately not able to be conducted to the appropriate extent. This became apparent in 2018 when it was revealed that Postbus Switzerland had been making false entries in its subsidy accounts for years and was thus able to obtain excessively high subsidies.

What next?

Following resolution of the events at Postbus Switzerland, the legal requirements were amended in May 2020 and the FOT's personnel resources for subsidy audits were stepped up.

In future, the management of all transport companies must expressly confirm on an annual basis compliance with the requirements relating to the subsidies received. This again underscores that the company management bears responsibility for subsidy misuse.

New external controls have also been established to ensure that taxpayers' money is used for the intended purpose. Transport companies that receive subsidies totalling more than CHF 1 million a year must in future (from 2021) undergo a special subsidy audit. They must engage an audit firm to conduct this audit. The audit firms investigate specific questions prescribed by FOT regarding compliance with the Swiss Subsidisation, Rail and Passenger Transport Act.

In addition, the FOT will in future conduct its own risk-based audits of companies' subsidy accounts as part of its extended controls.

Enhanced overall governance for subsidised transport companies

