Public Audit Report

State Enterprise Management

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Vilnius

Summary

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A state enterprise is owned by the State which exercises its ownership rights and responsibilities through the Government or through one of its authorised state governing institution that is designated as an institution exercising owner's rights and responsibilities.

Each of presently operating state enterprises is different in terms of their aims, profile, infrastructure, nature of activity, etc. Only part of the enterprises can be classified according to the nature of their activity (forest wards, regional roads, pharmacies, correctional institutions, etc.), other enterprises are very different in terms of performed activities and have different aims.

Audited entities were 108 presently operating state enterprises from which eight were selected for the main study. Enterprises were selected on the basis of problems determined during preliminary study and results of evaluation of their financial statements and performance indicators.

The audit aim was to evaluate enterprise management and assets effectiveness. During the audit we analysed state enterprise regulation, evaluated whether institutions exercising ownership rights and responsibilities ensure state enterprise monitoring and control, analysed how state enterprises are funded and how effectively they use property transferred to them by the right of trust, carried out international comparisons.

We have determined that there was no clearly formulated policy at state level in relation to state enterprises and it was not clear what activity and what public services, important to the public, state enterprises should perform and what return they should give to the state. Institutions exercising state ownership rights and responsibilities do not always properly exercise state enterprise monitoring and control, make decisions and give instructions that might have a negative influence on enterprise aims and results. There are cases when they exceed their mandate by instructing enterprises to cover expenses that are not typical to the activity and functions they perform, they do not conclude agreements with state enterprises on the use of budget funding and do not require state enterprises to account for the use of budget funding following principles of economy, efficiency and effectiveness.

Cases occur when institutions exercising state ownership rights and responsibilities do not define policies for subordinate state enterprises, do not approve their structure or approve the structure that is not operating, do not use the possibility to set up boards and do not require enterprises to

publicise their activity reports. There are cases when ownership rights and responsibilities of one enterprise are exercised by two institutions.

In 2006, 2007 and 2008 institutions exercising state ownership rights and responsibilities allocated to state enterprises 350 million Litas for property acquisition. Although the state allocates funds for state enterprises for property acquisition however it does not get return in the form of taxes because state enterprises consider funds for property acquisition as subsidies without increasing the state enterprise owner capital from which tax for the use of state property by the right of trust is deducted.

According to the data of 2008 financial statements state enterprise property amounted to 14.4 billion Litas although there were cases where the declared value of property managed by some state enterprises did not correspond to the real value of property therefore the state did not have reliable data on the real value of property managed by state enterprises by the right of trust.

State enterprises do not in all cases ensure effective use of state property as part of enterprises manage property which is not required to perform their main activity and sometimes is not used at all. In some cases state property is managed without following principles of public benefit, effectiveness and public law defined in the Law on Management, Use and Disposition of State and Municipal Property as well as established property transfer requirements.

In 2006–2008 state enterprises lent for their employees non-interest loans amounting to 1.5 million Litas. Such lending for employees is not in line with enterprise objectives, does not bring any benefit to enterprise and demonstrates ineffective use of turnover, besides enterprises have to cover taxes relating to those loans and undertake risks in the case of loan default.

Following the audit findings we proposed the Government to formulate a common policy for state enterprise management by determining which enterprises require legal status of state enterprise, to change legal status of those state enterprises whose activity is not in line with state enterprise aims and those whose entire expenditure is covered from buget funds. To obligate institutions exercising ownership rights and responsibilities to ensure control of budget funds allocation, the use and accountability by the state enterprises, the use of property managed by state enterprises following principles of effectiveness, rationality, public benefit and public law, to revise property managed by state enterprises with the aim of refusing unnecesary property. To consider possibility to appoint an institution that would co-ordinate and monitor implementation of the common policy as well as to analyse and publicise its activity indicators.

We recommended the Ministry of Finance and the Ministry of Economy to initiate changes in legislation by defining obligation for state enterprises to increase enterprise owner capital with the funds received from the state budget for acquisition of property. The Ministry of Economy was recommended to initiate changes in legislation in order to define cases in which boards should be set up in state enterprises as well as to define their setting principles.