



Executive summary of the public audit report

THE MANAGEMENT, USE AND DISPOSAL
OF THE MUNICIPAL ADMINISTRATION
BUILDING OF VILNIUS CITY AND THE
FUNDS ALLOCATED FOR THE PROPERTY

12 May 2016, No. VA-P-30-4-7



Full audit report in Lithuanian is available on the website
of the National Audit Office
: www.vkontrole.lt

SUMMARY

With this audit the National Audit Office sought to assess the fulfilment of the Vilnius City municipal government's obligations to hand over real estate ownership rights to the state, the reasons behind the delayed real estate handover and the consequences of the municipal government's decision to acquire real estate in this way.

By signing the 26/11/2002 agreement with the Head of the Vilnius County Administration, the municipal government committed to handing over ownership rights of the newly constructed building (at 1 Europos Square, Vilnius) and the finished premises within to the state in exchange for the real estate that the municipality received and sold.

Municipal government did not hand over all property it was obliged to pass on to the state

- In conducting audits of the Administration of the Head of Vilnius County and liquidating the structure in a previous year, the supreme audit institution urged authorities to pick up the pace with regard to the fulfilment of its obligations to the state. Once the construction of the building was complete, the municipal government had the opportunity in 2004 to hand the premises over, however, failed to do so for over 11 years.
- The fulfilment of obligations to the state was delayed because the premises were acquired in the name of the enterprise and not the municipal government. Only after the courts obliged it do so, did the municipal government begin to take action with regard to the handover of property to the state.

The municipal government fulfilled the court decision in part: On 23/02/2016, it handed over the administrative premises (3,069.72 m²) to the state, however, it has still not handed over the 30-car underground parking lot. It should be noted that this parking lot is the property of the enterprise and has been used as collateral for ensuring a bank loan to the controlling enterprise. Because a bailiff has accepted the enforcement document that demands the fulfilment of the court decision, we have not issued any audit recommendations to the municipal government and would like to note that the municipal administration must plan for measures that would allow it to fulfil the enforcement document received by the bailiff and ensure the more expedient handover of the 30-car underground parking lot to the state. If further delays affect the handover of the property, the municipal administration may have to cover the costs of enforcing the court decision as well. This will lead to the municipal government incurring financial losses, and the process of handing property over to the state will be prolonged even further.

Municipality's delayed fulfilment of obligations resulted in state budget experiencing loss of 478.4 thousand euros in costs

- With local government delaying the fulfilment of its obligations, a public budgetary establishment – the State Security Department – was forced to pay rent for premises that should have been in the hands of the state for 10 years. As a consequence, the state budget lost 478.4 thousand euros in costs.

Because the state budget had to cover the costs of renting premises that should have been handed over to it in the first place, we proposed that Turto Bankas VĮ assess whether these costs could be deemed as state-incurred losses due to the inadequate fulfilment of contractual obligations on behalf of the municipal administration, and take legal action to recover these costs.

Questionable effectiveness of method used by municipal authorities to acquire and manage administrative building

- The method selected by the municipal government to acquire and manage the administrative building at 3 Konstitucijos Ave, Vilnius, wherein a building already acquired for 24.3 thousand euros of municipal funds was then rented for administrative purposes, does not produce a return on investment, and the municipal government keeps incurring rental expenses. These observations can be of use to the municipal government in assessing the effectiveness of the chosen method of acquiring and managing administrative property because the cost of leasing the building over a 15 year period will have exceeded the cost of acquiring the building in the first place.

The municipal government is responsible for managing state and municipal property based on the principles of public benefit, efficiency, rationality and public justice, thus in making decisions with regard to the acquisition or management of real estate, it must ensure the effective use of municipal funds and property. It should also be noted that the results of the audit demonstrated that municipal authorities should find a comprehensive solution for the management of its real estate affairs as well as assess the emerging risks and negative consequences of acquiring property through a controlling enterprise.