



NATIONAL AUDIT
OFFICE OF LITHUANIA
• BRINGING BENEFITS •

SUMMARY OF PUBLIC AUDIT REPORT

MANAGEMENT OF STATE REAL ESTATE TRANSFERRED IN TRUST TO MUNICIPALITIES

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The main function of the National Audit Office of Lithuania (NAOL) is to supervise the lawful and efficient management and use of public finances and other property and the implementation of the State budget. By providing audit observations and recommendations, the NAOL aims to increase the efficiency of the public sector and its benefits to society, and to set an example for the entire public sector by raising the highest quality requirements for its work.

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Public audit report was submitted to: the Committees of the Seimas Audit of the Republic of Lithuania, State Administration and municipalities, and Budget and Finance, the Government of the Republic of Lithuania, the municipalities of Akmenė district, Alytus city, Alytus district, Anykščiai district, Birštonas, Biržai district, Druskininkai, Elektrėnai, Ignalina district, Jonava district, Joniškis district, Jurbarkas district, Kaišiadorys district, Kalvarija, Kaunas city, Kaunas district, Kazlų Rūda, Kelmė district, Kėdainiai district, Klaipėda city, Klaipėda district, Kretinga district, Kupiškis district, Lazdijai district, Marijampolė district, Mažeikiai district, Molėtai district, Pakruojis district, Panevėžys city, Panevėžys district, Pasvalys district, Plungė district, Prienai district, Radviliškis district, Raseiniai district, Rietavas, Rokiškis district, Skuodas district, Šakiai district, Šalčininkai district, Šiauliai city, Šiauliai district, Šilutė district, Širvintos district, Švenčionys district, Tauragė district, Telšiai district, Trakai district, Ukmergė district, Utena district, Varėna district, Vilkaviškis district, Vilnius city, Vilnius district, Visaginas city, and Zarasai district.

SUMMARY

The Importance of the Audit

Public real estate (RE) management in Lithuania is decentralised: the property is managed and disposed of by those who use it: the State and municipal institutions. Municipalities manage, use, and dispose of the State-owned property in trust that has been transferred to them for exercising State functions (delegated by the State to municipalities) and State-owned property that is assigned but not yet transferred to their ownership following the Law on the Transfer of State-Owned Property to Municipalities.

Municipalities managing State property in trust must ensure that this property is saved, not wasted, rationally managed and used, and decisions on the use and management of this property ensure the maximum benefit to the society and the satisfaction of its needs¹.

The audit on the management of State real estate carried out in 2018² revealed RE management problems and the fact that no institution had the summarised data on which RE and what extent of it had been transferred to municipalities, often the municipalities themselves do not know exactly how much and what property they own. The National Audit Office of Lithuania (NAOL) invited municipal control and audit services to carry out a joint audit of RE held by municipalities the purpose of which is to assess whether the RE is managed in municipalities in a targeted and complex manner, whether it is used efficiently and seeking the greatest benefit to the society. 56 (out of 60) municipal control and audit services joined the audit. During the audit, municipal control and audit services assessed the management of municipality-owned RE and the NAOL assessed the management of State-owned RE held in trust by municipalities.

Municipality is a public institution operating closest to the residents which, when exercising assigned State functions (delegated by the State to municipalities) and independent functions in daily activities, provides public services to local residents. The State property held in trust by municipalities is one of the means for performing their functions. Therefore, it is particularly important in their activities to seek public benefit, efficiency, and rationality in the management of the property. The lack of comprehensive and current information about the RE held in trust and its actual condition determines shortcomings in the management of the State property entrusted to them. Seeking to identify RE management problems and assess what measures could help municipalities manage the State property entrusted to them more efficiently, we decided to carry out this audit.

Objective and Scope of the Audit

The objective of the audit is to assess whether the State RE transferred in trust to municipalities is managed efficiently.

¹ Law on the Management, Use and Disposal of State and Municipal Assets, Article 9.

² Public audit report "The Management of State Real Estate", 24/01/2018 No VA-2018-P-60-8-1, p. 31.

Key audit questions:

- whether municipalities manage, use and dispose of State RE in compliance with the principles of RE management³: public benefit, efficiency, rationality, and public law;
- whether municipalities have information on the held State RE.

Audited entities are 56 municipalities whose control and audit services agreed to participate in the joint audit of municipal RE, their institutions, enterprises, agencies, and organisations.

Audit subject – the State RE transferred in trust to municipalities: management of buildings (including buildings classified as immovable cultural property), premises and their parts. The audit subject does not cover land, civil engineering, and other RE.

The audited period is 2017 – the first half of 2019. We assessed RE inventory on the basis of the results of the inventories of 2018 and 2019.

During the audit, we did not evaluate leased residential premises because the management of property attributable to municipal housing funds was assessed by municipal control and audit services.

The audit has been performed in accordance with the Public Auditing Requirements and the International Standards of Supreme Audit Institutions. Audit scope and the applied methods are described in more detail in Annex 1 “Audit scope and methods”.

Key Audit Results

During the audit, we found that 39 (out of 49) municipalities had not ensured that 53 per cent of the State RE entrusted to municipalities would be rationally managed and used, and the decisions taken on the use and management of this RE would ensure the maximum benefit to the public and the satisfaction of its needs.

1. One-third of municipalities that hold in trust the State-owned RE do not have precise and detailed information on it

19 (out of 49) municipalities⁴ held in trust 155 State RE objects⁵ (23.4 thousand square metres) that have been assigned but not yet transferred to their ownership under the Law on the Transfer of the State-Owned Property to Municipalities. Until the beginning of the audit, 14 (out of 19) municipalities⁶ did not know about 39 per cent of these objects (61 RE objects, 4.4 thousand square metres), had not included them in their accounting nor take their inventory. As a result, 39 per cent (24 out of 61) State RE objects are not used, 46 per cent (28 out of 61) of the objects are abandoned, decayed (destroyed), 15 per cent (9 out

³ Law on the Management, Use and Disposal of State and Municipal Assets, Article 9.

⁴ Anykščiai district, Jonava district, Kaišiadorys district, Kaunas city, Kaunas district, Kėdainiai district, Klaipėda city, Klaipėda district, Mažeikiai district, Panevėžys district, Prienai district, Radviliškis district, Skuodas district, Šalčininkai district, Šiauliai district, Šilutė district, Telšiai district, Vilnius city, and Visaginas city.

⁵ 30/06/2019.

⁶ Jonava district, Kaišiadorys district, Kaunas city, Kaunas district, Kėdainiai district, Klaipėda city, Klaipėda district, Mažeikiai district, Panevėžys district, Prienai district, Skuodas district, Šilutė district, Telšiai district, and Vilnius city.

of 61) of the objects are used by natural persons, although the property has not been transferred to them.

Data of 6 (out of 49) municipal⁷ RE inventories⁸ do not show the actual condition of the State RE held in trust by municipalities because it was not established during the inventories that 23 property objects have been abandoned and decayed. The accounting data of 3 (out of 49) municipalities⁹ are inaccurate and incomplete as they do not show the volume of 11 State RE objects or their parts held in trust. As a result, these municipalities do not have accurate and complete information necessary to ensure efficient management of the State RE entrusted to them.

Municipalities have not ensured that the information of the Real Property Register about the State RE held by them is accurate and current: 2 (out of 49) municipalities¹⁰ had not registered 3 objects of the State RE held in trust by them, 3 (out of 49) municipalities¹¹ had not recorded in the Register that 3 RE objects are decayed, destroyed, or otherwise physically damaged, 6 (out of 49) municipalities¹² had not registered in the Register the concluded State RE loan-for-use agreements or their amendments for 7 RE objects and parts of 2 objects, while 2 (out of 49) municipalities¹³ had not registered State RE lease agreements for 8 RE objects and parts of 2 objects. Therefore, the manager of centrally managed State property State enterprise “Turto Bankas” and other users of public data did not have the conditions to obtain comprehensive and accurate information on the State RE held in trust by municipalities which is necessary for making decisions based on data analysis.

2. 53 per cent of State RE held in trust by municipalities was not used or was used not for the functions for which it was entrusted

The Law¹⁴ provides that the State RE is transferred in trust to municipalities for management, use, and disposal of for the purpose of exercising State functions (delegated by the State to municipalities). 29 (out of 47) municipalities¹⁵ did not use 14.3 thousand square metres (62 objects and 29 parts of objects) of the State RE for the functions for the implementation of which it was transferred: 5 municipalities¹⁶ used 0.1 thousand square metres (4 objects and parts of 2 objects) to perform other State functions, 22 municipalities¹⁷ used 4.2 thousand square metres (21 objects and parts of 17

⁷ Alytus district, Anykščiai district, Ignalina district, Kaunas city, Kaunas district, and Pasvalys district.

⁸ 2018–2019.

⁹ Kaunas city, Joniškis district, Pakruojis district.

¹⁰ Jonava district and Kaunas city.

¹¹ Anykščiai district, Kaunas district, and Pasvalys district.

¹² Ignalina district, Jonava district, Jurbarkas district, Kaišiadorys district, Pakruojis district, and Šalčininkai district.

¹³ Kupiškis district and Šiauliai district.

¹⁴ Law on the Management, Use and Disposal of State and Municipal Assets, Article 11(1)(2).

¹⁵ Akmenė district, Alytus city, Anykščiai district, Biržai district, Jonava district, Joniškis district, Jurbarkas district, Kaišiadorys district, Kaunas city, Kaunas district, Klaipėda district, Kupiškis district, Pakruojis district, Panevėžys district, Pasvalys district, Radviliškis district, Raseiniai district, Rokiškis district, Skuodas district, Šakiai district, Šiauliai district, Šilutė district, Švenčioniai district, Tauragė district, Ukmergė district, Utena district, Varėna district, Vilnius district, and Visaginas district.

¹⁶ Joniškis district, Jurbarkas district, Rokiškis district, Klaipėda district, and Šilutė district.

¹⁷ Akmenė district, Alytus city, Anykščiai district, Biržai district, Jonava district, Jurbarkas district, Kaunas district, Kaišiadorys district, Kaunas district, Klaipėda district, Kupiškis district, Pakruojis district, Panevėžys district,

objects) for the implementation of independent functions, 9 municipalities¹⁸ transferred 9 thousand square metres (5 objects and parts of 6 objects) on the loan-for-use basis to other State budgetary institutions, 6 municipalities¹⁹ have provided 9 thousand square metres (5 objects and parts of 6 objects) for use to natural and legal persons who do not perform State or municipal functions, 12 municipalities²⁰ have not used 5.6 thousand square metres (32 objects and parts of 6 objects) in their activities. Municipalities failed to fulfill the obligation stipulated in the legal act²¹ and did not take actions to return to the State the State RE which is not required to perform their functions, therefore, the efficient use of the State RE meeting the public needs was not ensured.

In 10 (out of 47) municipalities²², 7 thousand square metres (35 objects and part of 1 object) of the State RE held in trust are abandoned and decayed. The municipalities did not take timely action on the write-off and liquidation of the tumbledown or physically degraded RE, therefore, the RE degrades further and causes danger to the public.

5 (out of 34) municipalities²³ adopted decisions on the use of the 8.5 thousand square metres of RE not necessary to perform their functions. 29 municipalities²⁴ have not taken the following decisions on the remaining 68 per cent State RE (18.4 thousand square metres, 100 objects and parts of 24 objects) not necessary to implement their functions: to transfer it to State enterprise "Turto Bankas", to take over its ownership or to declare the property unfit for use, write it off, and liquidate. The State RE held by municipalities is therefore managed and used inefficiently.

The process of management of the State RE transferred in trust to municipalities is not fully regulated: the process of establishing and substantiating the need for State RE, the criteria on the basis of which the Government would take decisions to transfer the State RE to a municipality and the monitoring and control process of the use of the State RE in municipalities have not been established. In the analysed cases, municipalities had not properly assessed the necessity of the property, while the Government, when transferring the property to municipalities, had also not assessed and made sure that the property was necessary for exercising of the State functions (delegated by the State to municipalities). The absence of the monitoring and control system of the use of State RE creates preconditions for using it for other activities or for not using it at all.

Radviliškis district, Raseiniai district, Rokiškis district, Skuodas district, Šilutė district, Tauragė district, Ukmergė district, Utena district, Vilnius district, and Visaginas district.

¹⁸ Akmenė district, Anykščiai district, Kauno city, Kupiškis district, Pakruojis district, Pasvalys district, Šakiai district, Šilutė district, and Varėna district.

¹⁹ Kaunas city, Kupiškis district, Šiauliai district, Švenčionys district, Tauragė district, and Varėna district.

²⁰ Jurbarkas district, Kaunas city, Kaunas district, Klaipėda city, Klaipėda district, Kupiškis district, Lazdijai district, Pakruojis district, Rokiškis district, Šalčininkai district, Švenčionys district, and Vilnius district.

²¹ Law on the Management, Use and Disposal of State and Municipal Assets, Article 26(1)(8).

²² Alytus district, Anykščiai district, Biržai district, Ignalina district, Kaunas city, Kaunas district, Pasvalys district, Šalčininkai district, and Švenčionys district.

²³ Jonava district, Kaunas city, Kaunas district, Lazdijai district, Švenčionys district.

²⁴ Akmenė district, Alytus city, Alytus district, Anykščiai district, Biržai district, Ignalina district, Joniškis district, Jurbarkas district, Kaišiadorys district, Klaipėda city, Klaipėda district, Kupiškis district, Pakruojis district, Panevėžys district, Pasvalys district, Radviliškis district, Raseiniai district, Rokiškis district, Skuodas district, Šakiai district, Šalčininkai district, Šiauliai district, Šilutė district, Tauragė district, Ukmergė district, Utena district, Varėna district, Vilnius district, and Visaginas city.

Recommendations

To the Government of the Republic of Lithuania

1. In order to make sure that State RE is managed and used efficiently and ensuring that public needs are met, we propose to establish:
 - 1.1. procedures for assessing the need for the State RE planned to be transferred to municipalities to exercise the State functions (delegated by the State to municipalities) (2 key audit result);
 - 1.2. procedures for monitoring and control of the use of the transferred State RE in municipalities (2 key audit result);
 - 1.3. the duty of municipalities to submit reports to the State authorised institution on the actual use and condition of the State RE which they have received for the purpose of exercising State functions (delegated by the State to municipalities) (2 key audit result).

To the municipalities of Akmenė district, Alytus city, Alytus district, Anykščiai district, Biržai district, Ignalina district, Jonava district, Joniškis district, Jurbarkas district, Kaišiadorys district, Kaunas city, Kaunas district, Klaipėda district, Kupiškis district, Pakruojis district, Panevėžys district, Pasvalys district, Radviliškis district, Raseiniai district, Rokiškis district, Skuodas district, Šakiai district, Šalčininkai district, Šiauliai district, Šilutė district, Švenčionys district, Tauragė district, Ukmergė district, Utena district, Varėna district, Vilnius district, and Visaginas

2. In order to make sure that the State RE held in trust by municipalities is managed and used efficiently and ensuring that public needs are met, to assess whether the State RE is necessary for the exercising of their functions and take actions to return or write-off and liquidate the unnecessary or not fit (not possible) for use property in accordance with the procedure laid down by legal acts (2 key audit result).

To the municipalities of Jonava district, Joniškis district, Kauno city, Kėdainiai district, Klaipėda district, Prienai district, Skuodas district, Telšiai district, and Vilnius city

3. To ensure that the accounting of the State RE held in trust by municipalities is accurate and complete, to record in the accounts all State RE held in trust and take measures to make sure that all accounting data is accurate and comprehensive (1 key audit result).

To the municipalities of Anykščiai district, Kaunas city, Kaunas district, and Pasvalys district

4. Seeking that the results of inventories of the State RE held in trust by municipalities show the actual condition of the said property, to record in the inventories the actual condition of the said property (1 key audit result).

To the municipalities of Anykščiai district, Jonava district, Kaunas city, Kaunas district, Kupiškis district, Pasvalys district, Šalčininkai district, and Šiauliai district

5. To ensure that the data of the Real Property Register about the State RE held in trust by municipalities is accurate and complete, revise and update the Register data (1 key audit result).

Measures and deadlines for the implementation of recommendations are provided in the report section “The Plan for the Implementation of Recommendations”.

BRINGING BENEFITS

