



EUROSAI

Task Force
Municipality Audit



AUDIT COMPENDIUM

Municipal real estate management

Audit reports published between 2016 and 2021

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CONTENTS

FOREWORD	3
EXECUTIVE SUMMARY	4
PART I. OVERVIEW OF WORK DONE BY THE SAIs	5
Main observations, related to real estate accounting	7
Main observations, related to compliance (of real estate) with the law	8
Main observations, related to the efficiency of real estate management	9
PART II. SAI AUDIT/OVERVIEW REPORTS AT A GLANCE	12
Austria – Rechnungshof Österreich	12
<i>Media Quarter Marx; Follow-up-Audit (2019)</i>	<i>12</i>
<i>Selected Property Sales by the City of Vienna – Municipal Department 69 (2017).....</i>	<i>14</i>
<i>GLV – Gruberstraße Linz Verwertungsgesellschaft mbH (2017).....</i>	<i>16</i>
<i>Wohnfonds Wien (Vienna housing fund) (2018)</i>	<i>17</i>
Bulgaria - Bulgarian National Audit Office	20
<i>Financial and compliance audits (2017 – 2021)</i>	<i>20</i>
Estonia – Riigikontroll.....	24
<i>How many buildings do local governments have and what kind of problems do they face in their management? (2016).....</i>	<i>24</i>
Hungary – Allami Számvevőszék	28
<i>Compliance audits (2017-2021)</i>	<i>28</i>
Israel – State Comptroller's Office.....	30
<i>Allocation of Municipal Land to Non-Profit Organisations (2017-2021)</i>	<i>30</i>
Latvia – Latvijas Republikas Valsts kontrole.....	32
<i>Management and implementation of the real estate projects of Riga City Council's Property Department and Riga City Council's municipal enterprises (2021).....</i>	<i>32</i>
<i>Do municipalities meet the preconditions to ensure that the buildings they manage meet safety requirements? (2020).....</i>	<i>34</i>
<i>Compliance of Municipal Infrastructure Objects and Project Funding System, Process, and Criteria with Principles of Rational Use, Efficiency, and Sustainability of Finances (2019)</i>	<i>35</i>
<i>Does 'Rigas Mezi' Ltd. manage the municipal forest in compliance with legal requirements? (2017).....</i>	<i>37</i>
Lithuania – National Audit Office of Lithuania	39
<i>Management of state real estate transferred in trust to municipalities (2020)</i>	<i>39</i>
<i>Management of municipal real estate (2020).....</i>	<i>42</i>
<i>Is housing accessibility assured to low-income residents (2017).....</i>	<i>46</i>

<i>Financial audits (2017-2021)</i>	47
Montenegro – State Audit Institution of Montenegro	49
<i>Financial and compliance audits (2017 – 2021)</i>	49
Serbia – Drzavna revizorska institucija (DRI)	53
<i>Leasing business premises owned by local self-government units (2019)</i>	53
Spain – Tribunal de Cuentas	56
<i>Two audit reports on buildings where no activity is being carried out and on public works at a standstill in the municipalities of the Region of Murcia and Castilla-La Mancha (2020)</i>	56

FOREWORD

Dear reader,

The EUROSAI Task Force on Municipality Audit (TFMA) unites 27 supreme audit institutions (SAIs) and has created an open platform for cooperation and development of more efficient municipal external audit systems, sharing the best practice and experience in municipality audit as well as other activities. By strengthening the dialogue and cooperation between its members the TFMA contributes to more effective external audit at the local level and helps to improve good governance.

In 2018, TFMA members decided at the annual meeting in Belgrade to produce a new product – audit compendium. In order to systematise and analyse the audit work performed by the TFMA members, to raise awareness of their recent developments and make the results of the TFMA SAIs related to municipality audit more widely available, the first audit compendium “Municipalities owned companies” was launched in 2020.

In view of the success of the first edition, the activity addressing additional topics of general interest has been pursued. Taking into account the relevance of the issue and the systematicity of audits carried out by TFMA members, the subject of real estate was chosen for the second audit compendium.

Municipal real estate is the key element of public service delivery systems, as well as a tool for generating income. Real estate plays an important role in public/private partnerships, also in economic and workforce development and ensuring true quality of life. For this reason, efficient property management is very important for municipalities and includes a lot of decisions related to real estate inventory and accounting, also its uses, disposal and management in compliance with the law, as well as its maintenance and development.

Real estate management remains relevant in this time of pandemic, when municipal budgets have been affected by declining revenues and new necessary expenditure on property and its needs, when a large part of the society works from home and some services are provided from distance. As a result, real estate landscape is changing and municipalities face challenges, they need to think creatively how to refocus infrastructure investment priorities, the use of real estate along with new ways to deliver public services.

We are proud to present the second edition of the audit compendium, focusing on recent audits of municipal real estate management and related issues. The compendium draws on the results of audits and overviews carried out by ten SAIs: Austria, Bulgaria, Estonia, Hungary, Israel, Latvia, Lithuania, Montenegro, Serbia, Spain. The preparation of the compendium was coordinated by SAIs of Lithuania and Serbia.

We hope that the overview provided in this compendium will be a useful source of information for everyone interested in this field, will add value to SAIs and will further stimulate the improvement of real estate management at local level.

Mindaugas Macijauskas
Auditor General of the Republic of Lithuania
Chairman of the EUROSAI TFMA

EXECUTIVE SUMMARY

The municipalities own a large amount of real estate, which is needed not only to provide public services and to carry out administrative functions, but also nowadays the municipal real estate is an instrument generating revenue and stimulating local development. Therefore, the municipalities should analyse, control, use the real estate wisely and make effective solutions for the real estate management.

To achieve this goal, the municipalities should (i) have detailed, accurate accounting data on real estate, (ii) ensure the use, management and disposal of real estate to compliance with the law and (iii) manage the real estate efficiently. The compendium presents the results of municipal real estate audits and overviews based on these three aspects mentioned.

The first part of the audit compendium summarises the results of audits and overviews by ten SAIs grouped by three main areas: mistakes/shortcomings related to real estate accounting, irregularities/shortcomings related to compliance (of real estate) with the law and problems/shortcomings related to the efficiency of real estate management.

The second part of the audit compendium contains information, provided by ten SAIs. The information of a SAI includes the title of the audit/overview, the type of the audit, the audited period, the audit scope and objectives, the identified mistakes, irregularities, shortcomings or problems, the provided recommendations and information on their implementation.

The compendium presents the results of financial, compliance, performance audits and overviews, published in reports at the period 2016-2021.

SAIs carry out their audits in accordance with the International Standards of Supreme Audit Institutions and relevant implementing standards developed at national level to ensure the quality of audit work and reports.

The subject of the audits and overviews carried out is the real estate managed by municipalities: buildings, infrastructure objects, land, forest, parks and the investment projects related to the development of the real estate.

PART I. OVERVIEW OF WORK DONE BY THE SAIs

This part of the audit compendium summarises the results of selected audits and overviews carried out by the 10 contributing Member State SAIs.

The results of audits and overviews performed by SAIs are presented according to the main focus areas of mistakes, irregularities, shortcomings and problems. All results are divided into three main areas:

1. mistakes/shortcomings related to real estate accounting;
2. irregularities/shortcomings related to compliance (of real estate) with the law;
3. problems/shortcomings related to the efficiency of real estate management.

These main areas of results are divided into smaller groups of observations. The table shows what observations were identified in every audit/overview conducted by each SAI.

Table. Results of audits and overviews performed by SAIs by the main focus areas related to the municipal real estate

Type and title of the audit/overview	Accounting			Compliance with the law					Management efficiency					
	Mistakes/ shortcomings related to:			Irregularities/ shortcomings related to:					Problems/shortcomings related to:					
	Recording of transactions	Classification of assets	Valuation of assets	Sale/transfer	Rental	Inventory	Maintenance	Other	Management strategy	Development	Use and disposal	Unused real estate	Management of social housing	Other
Austria – Rechnungshof Österreich														
Follow-up audit based on a performance audit Media Quarter Marx; Follow-up–Audit										√				
Performance audit Selected Property Sales by the City of Vienna – Municipal Department 69											√			
Performance audit GLV – Gruberstraße Linz Verwertungsgesellschaft mbH										√				
Performance audit Wohnfonds Wien (Vienna housing fund)													√	
Bulgaria - Bulgarian National Audit Office														
Financial and compliance audits performed in 2017-2021	√	√	√	√	√				√	√		√		

Type and title of the audit/overview	Accounting			Compliance with the law				Management efficiency						
	Mistakes/shortcomings related to:			Irregularities/shortcomings related to:				Problems/shortcomings related to:						
	Recording of transactions	Classification of assets	Valuation of assets	Sale/transfer	Rental	Inventory	Maintenance	Other	Management strategy	Development	Use and disposal	Unused real estate	Management of social housing	Other
Estonia – Riigikontroll														
Overview How many buildings do local governments have and what kind of problems do they face in their management?									√	√		√		
Hungary – Allami Számvevőszék														
Compliance audits performed in 2017-2021	√		√			√								√
Israel – State Comptroller's Office														
Combined audit (Performance and compliance) Allocation of Municipal Land to Non-Profit Organisations				√										√
Latvia – Latvijas Republikas Valsts kontrole														
Combined audit (Performance and compliance) Management and implementation of the real estate projects of Riga City Council's Property Department and Riga City Council's municipal enterprises							√		√	√				√
Combined audit (Performance and compliance) Do municipalities meet the preconditions to ensure that the buildings they manage meet safety requirements?						√				√				√
Combined audit (Performance and compliance) Compliance of Municipal Infrastructure Objects and Project Funding System, Process, and Criteria with Principles of Rational Use, Efficiency, and Sustainability of Finances									√					
Compliance audit Does 'Rigas Mezi' Ltd. manage the municipal forest in compliance with legal requirements?										√				

Type and title of the audit/overview	Accounting			Compliance with the law					Management efficiency					
	Mistakes/shortcomings related to:			Irregularities/shortcomings related to:					Problems/shortcomings related to:					
	Recording of transactions	Classification of assets	Valuation of assets	Sale/transfer	Rental	Inventory	Maintenance	Other	Management strategy	Development	Use and disposal	Unused real estate	Management of social housing	Other
Lithuania – National Audit Office of Lithuania														
Performance audit Management of state real estate transferred in trust to municipalities											√	√		√
Overview Management of municipal real estate				√	√			√	√		√	√	√	√
Performance audit Is housing accessibility assured to low-income residents													√	
Financial audits performed in 2017-2021	√		√											
Montenegro – State Audit Institution of Montenegro														
Financial and compliance audits performed in 2017 – 2021	√	√		√		√	√	√						
Serbia – Drzavna revizorska institucija (DRI)														
Performance audit Leasing business premises owned by local self-government units	√				√			√			√			
Spain – Tribunal de Cuentas														
Performance audits Two audit reports on buildings where no activity is being carried out and on public works at a standstill in the municipalities of the Region of Murcia and Castilla-La Mancha	√					√		√	√	√		√		√

Main observations, related to real estate accounting

Audits identified mistakes and shortcomings, related to real estate accounting:

- Not all real estate was inventoried, legally registered and recorded in the municipal accounts or was recorded incorrectly.
- The real estate was recorded in incorrect groups and accounts of classes.
- The real estate was evaluated at incorrect value because the depreciation was incorrectly calculated or it was measured at improper value.

These mistakes affected the real estate data reported in the municipal financial statements and other reports related to real estate. Ensuring accurate and reliable financial statement data is critical. This data is one of the essential sources needed to effectively manage real estate.

Main observations, related to compliance (of real estate) with the law

Sale/transfer of the real estate. The audits identified cases when the real estate was sold or transferred not in compliance with the law.

- The real estate was sold without a mandatory prior consent of the Government; the contracts for sale of municipal real estate had been concluded before the determined price has been paid and before the entry into force of the mayor's order to announce the winning bidder.
- The real estate was transferred to the municipal institutions, enterprises, agencies and organisations for management by the right of trust without municipal councils made decisions; the delivery and acceptance acts of real estate have not been signed; the real estate was transferred for management by the right of trust, although it had to be transferred under loan-for-use basis.
- The real estate was transferred under loan-for-use basis, but the control of the conclusion and execution of loan-for-use agreements was not ensured (the agreements were concluded with entities that cannot be the beneficiaries of loan-for-use; the loan-for-use term, indicated in the agreements, was longer than established by legal acts; the purpose and the obligations of the beneficiary were not specified; the beneficiaries used the real estate, although the agreements were terminated; the real estate was not insured by beneficiaries).
- The municipal land was allocated to public Non-Profit Organisations without a professional allocations committee, guidelines and criteria. A transparent, fair and equitable land transfer process, control over the use of the allocated land were not ensured.

Real estate rental. The performed audits pointed out irregularities related to the conduct of real estate lease tenders, the conclusion of lease agreements and their control:

- Municipal real estate was leased without the decisions of the municipal councils. Tendering procedures for the real estate lease did not comply with legal requirements (e. g. responsible persons not included in the commission, tenderers were not informed of the winner). The initial rental prices did not correspond to the prices set by the municipal councils.
- Lease agreements were concluded not in accordance with legal requirements (e. g. the term of the lease was not specified in the lease agreements or set longer than

established in the legal acts; the lease price was not indicated in the lease agreements).

- The control over the execution of lease agreements was not ensured. Therefore, the lessees used the municipal real estate outside the scope specified in the lease agreement and the lease actually paid by the lessees did not correspond to those specified in the agreement or the lessees did not pay the lease constantly.

Real estate inventory. The audits found shortcomings regarding the inventory of the real estate. The inventory rules set by the municipalities did not comply with the relevant legal requirements. The inventories were not conducted in municipalities or the deficiencies in the inventory were identified (e. g. the inventory commission submitted reports on performed annual inventory with significant delay; the commission was not formed properly).

Maintenance of the real estate. The audits revealed irregularities related to the maintenance of real estate and the supervision of works during investment projects. Although owners cannot refuse to carry out maintenance activities, routine repairs and reconstruction measures, individuals as well as municipalities often do not invest in the necessary works. As a result, residential and administrative buildings are significantly damaged and endanger human health and life.

Main observations, related to the efficiency of real estate management

Real estate management strategy. The guidelines (INTOSAI GOV 9160) on enhancing good governance of public assets provide that in order to manage assets efficiently, an asset management strategy must be developed, including objectives for assessing what optimal asset base is needed. The results of the audits showed that the municipalities do not have real estate management strategies, the governance models are fragmented, lacking standardized governance principles, cost analysis, clearly defined tasks and performance indicators, sufficient control and evaluation procedures. The audits revealed that the lack of the real estate management strategy caused situations when municipalities:

- sold municipal real estate as a way to gain own revenues, but did not look for new ways to increase the efficiency of the real estate management and to generate own revenues on that base;
- did not want to decide which real estate they actually needed for the provision of services and which real estate should be realised, according to the service decrease;
- having a lot of unused buildings, rented properties from third parties for the development of their management or the provision of services. Municipalities did not conduct sufficient studies to analyse whether the existing buildings could be used for these functions;
- did not analyse the cost-effectiveness and effectiveness of the municipal real estate governance model, because they did not record and did not analyse costs for real

estate governance processes or the financial indicators of individual real estate objects.

Real estate development. The real estate management problems are also related to real estate development problems. The audits noted the weaknesses in the planning, financing, and management of real estate development projects. The planning of real estate development projects did not correspond to the real situation in municipalities and needs of residents. The investments were planned, assessing the situation in current period, but not assessing the long-term implications of the decisions. The performed audits identified cases, when:

- The new real estate development projects have been taken a long time or were suspended, not completed so far due to lack of funds.
- The apartment buildings for public housing were purchased in territories of other municipalities, without assessing that the residents' income tax shares will be received by the municipalities where the buildings are located, not by the municipalities which maintain the buildings and cover credit liabilities.
- The economic objectives of corporate investments as well as the need for public sector participation in order to achieve these objectives before entering into investments were not set up.

Real estate use and disposal. The performed audits revealed problems related to real estate use, sale and rent. The municipal real estate was used not for the functions for which it was entrusted. The municipal real estate was sold below the assumed market value. Without proper rental marketing, municipal real estate was leased at a below market rental prices and not on the best terms, rents were not collected on time. For these reasons, municipal budgets have lost part of their potential revenue.

Unused real estate. Part of the real estate was transferred to municipalities by the State although neither the municipalities nor the State assessed the necessity of this property for municipalities. A large proportion of municipal real estate is unnecessary or not fit (not possible) for use. Not fit for use real estate is tumbledown or physically degraded real estate, which has not been written off, liquidated and which degrades further and causes danger to the public. The disposal of unnecessary real estate is complicated, it is difficult to find further use for it, to put this real estate into operation, dispose of it or modify its situation.

Management of social housing. The audits revealed that the development of the social housing fund did not solve the problems related to the provision of housing, and the funds were used ineffectively because the cost-benefit analyses were not implemented and more expensive options of purchasing housing were favored (e. g. the construction of new housing units and the reconstruction of unused buildings was 2 to 10 times larger than the price of housing on the market; the net floor space determining the sales price was not specified in the tender conditions for the building contractor competition).

Inadequate social housing development measures implemented by municipalities did not solve the accessibility problem of housing to vulnerable groups, low-income individuals who may have to wait for social housing in queue for 20 or more years.

Based on the audit results, SAIs provided recommendations to municipalities and other authorities, in order to improve the accounting of real estate, to ensure the use, management and disposal of real estate to compliance with the law and manage the real estate efficiently. SAIs monitor the action taken by the responsible parties and follow-up on the matters raised in audit reports in order the positive change in real estate management has been achieved.

PART II. SAI AUDIT/OVERVIEW REPORTS AT A GLANCE

Austria – Rechnungshof Österreich

Media Quarter Marx; Follow-up-Audit (2019)

Type of the audit

This is a follow-up audit, which assessed the implementation of the recommendations made during the performance audit.

Audited period

This is a follow-up audit. The audit was carried out in 2018. The audit report was published in 2019.

Audit scope and objectives

The Austrian Court of Audit (ACA) carried out a follow-up audit at the “Wirtschaftsagentur Wien, ein Fonds der Stadt Wien” (“Vienna Business Agency, a Fund of the City of Vienna”) and the “Media Quarter Marx Errichtungs- und Verwertungsgesellschaft mbH (MQM)” in order to assess the state of implementation of the recommendations it had issued in its preceding report “Media Quarter Marx”.

The Media Quarter Marx was a media centre in Vienna’s third district. Media companies and editorial offices settled there. The media centre was built by MQM GmbH as a public private partnership (PPP) project. The public shareholder of MQM GmbH was the Vienna Business Agency with 40%, the remaining 60% was held by a private investment company. After the follow-up review was finished, MQM GmbH sold the above-mentioned media centre to a private investment company.

Problems/shortcomings identified

In its follow-up audit, the ACA focused on recommendations to the Vienna Business Agency and MQM GmbH that either related to the specific project Media Quarter Marx (Media Centre MQM 3) or were of particular strategic importance for the public sector's investment in companies.

Problems/shortcomings related to the efficiency of real estate management

In its previous report, the ACA had recommended that the Vienna Business Agency review the economic objectives of corporate investments as well as the need for public sector participation in order to achieve these objectives before entering into investments in companies and to document the result in a comprehensible manner. This was only partially implemented.

In 2017, the Vienna Business Agency prepared a guideline for PPP projects, which included specifications for determining the need and project suitability based on criteria. According to these, the Vienna Business Agency had to define the requirements for the private partner and verify whether the financing and efficiency benefits to be expected from the PPP project structure exceed any additional financing and transaction costs. For reasons of comprehensibility, the evaluation of the criteria was to be carried out in writing. The guideline also contained relevant core statements from ACA reports. The Vienna Business Agency presented the guidelines to its managers and published them on its intranet, where they were available to all users.

As recommended by the ACA in its previous report, the shareholders of MQM GmbH issued rules of procedure including the distribution of responsibilities for the two managing directors. However, they refrained from concluding employment contracts with the managing directors. Therefore, there was no direct contractual regulation with the managing director nominated by the Vienna Business Agency as a shareholder. Concrete rights, obligations or liability regulations in relation to the management of MQM GmbH therefore remained open.

Furthermore, the ACA recommended,

- to work towards the recording of services provided by the managing directors working at MQM GmbH and a corresponding allocation of costs to MQM GmbH according to the originator as well as
- to generally consider the economic principle of true costs and charge the costs to the recipient of the services, MQM GmbH. In addition, time records should be kept for specific projects - while maintaining the appropriateness of the effort - in order to obtain an overview of the costs and effort of the services.

Additionally, the ACA recommended that key figures for assessing the profitability of a project be based on the annual profit (e.g. return on equity and return on assets or internal interest flow) or cash flow (discounted cash flow method).

(5) A profitability calculation formed the basis for the partnership and syndicate agreement. The ACA had recommended in its previous report that the partnership and syndicate agreement, including the profitability calculation, be adapted to the updated circumstances - such as total investment volume, rental space and return - in a timely manner.

Recommendations provided

(1) The ACA upheld its recommendation to the Vienna Business Agency to review the economic objectives of participations in companies as well as the need for public participation in order to achieve these objectives and to document the result in a comprehensible manner before entering into participations in companies.

(2) In the event of the continuation of MQM GmbH (see TZ10), the ACA recommended to the Vienna Business Agency to harmonise the rules of procedure for the management and the articles of association of MQM GmbH and, in particular, to uniformly determine the

transactions requiring the approval of the general assembly. The rules of procedure for the management would have to be approved by the general meeting of shareholders.

(3) The ACA maintained its recommendation to the Vienna Business Agency to work towards the recording of services and time spent by the managing directors and other employees of the shareholders working at MQM GmbH in order to obtain an overview of the actual expenditure and to present the provision of services by the shareholders in a transparent manner.

(4) The ACA considered its recommendation to be implemented.

(5) In the event of the continuation of MQM GmbH, the ACA maintained its recommendation to the Vienna Business Agency that the company and syndicate agreement, including the profitability calculation of MQM GmbH, should be adapted to the updated circumstances - such as total investment costs, rental space and return on investment - in a timely manner.

Implementation of recommendations

Of the assessed recommendations, one was implemented fully, three partly and one not at all.

Selected Property Sales by the City of Vienna – Municipal Department 69 (2017)

Type of the audit

Performance audit

Audited period

The audit essentially covered the period from 2005 to 2014. The Austrian Court of Audit (ACA) audited in 2015. The audit report was published in 2017.

Audit scope and objectives

The objective of the audit was to assess the valuations and preparatory actions carried out by Municipal Department 69 for the sale of properties, the appropriateness of the sales prices as well as the property management and the real estate strategy of the City of Vienna.

In addition, the ACA included gratuitous property transfers to the Vienna Housing Fund and building rights (individual and cooperative building rights) in its audit.

Problems/shortcomings identified

Problems/shortcomings related to the efficiency of real estate management

The City of Vienna failed to fully tap into the revenue potential arising from the sales of properties and the granting of building rights.

It sold two properties to non-profit building associations for social housing for up to 40% below the assumed market value.

The City of Vienna sold properties that came with individual building rights and (temporarily) had a lower value due to inadequate interest rates. Those properties were sold to the owners of the building rights for up to 45% below the so-called virtual basic value.

Properties with garden plots assigned for all-season living were sold by the City of Vienna for up to 45% below the market value.

In the opinion of the ACA, the highest risk for the City of Vienna - on the basis of the cases reviewed – was not to exploit the available revenue potential in the case of a property sale if

- the sale took place without a public bidding procedure,
- the sale was based on an inadequate market value appraisal,
- the sale was made below the market value for special reasons, or
- the purchase agreement did not contain a subsequent improvement agreement in the event of a later increase in value.

Recommendations provided

In total, 38 recommendations were provided. Among others, the following recommendations were made:

- The implementation of the real estate strategy of the City of Vienna should be accelerated and evaluated at regular intervals.
- When selling properties, the principles of the public bidding procedure should preferably be applied.
- Any shortfall in proceeds resulting from the sale of properties at a price below the market value for the purpose of subsidized housing would have to be presented transparently and comprehensibly in the application to the City Council.
- When concluding individual building right contracts, their long-term nature would have to be considered especially with regard to the sustainable generation of adequate income, the increase in value of the plot and its availability after the expiry of the contract period.
- In the real estate strategy of the City of Vienna, special attention should also be paid to the properties with garden plots; this in particular under the long-term aspects of real estate ownership, land provision, site development and utilization.
- The assessment of the properties with garden plots as a normal, good or very good location would have to be comprehensibly justified and documented.

Implementation of recommendations

The assessment of the implementations status has shown in 2018, that 32 out of the 38 recommendations were implemented, two were in implementation and four remained open. A follow-up audit was not carried out.

GLV – Gruberstraße Linz Verwertungsgesellschaft mbH (2017)

Type of the audit

Performance audit

Page | 16

Audited period

The audited period largely spanned the financial years 2011/12 through 2016/17. The audit report was published in May 2017.

Audit scope and objectives

The audit aimed at assessing the organization, the performance of tasks, the economic and financial situation and the budget management of the GLV–Gruberstraße3 Linz Verwertungsgesellschaft mbH4. The Gruberstraße property was owned by the City of Linz (capitol of the province of Lower Austria). Through MANAGEMENTSERVICE GmbH (in the following called the “public shareholder”), the City of Linz and a private company each held a 50% stake in Gruberstraße GmbH since 2006.

The task of Gruberstraße GmbH was the development of the property in Gruberstraße in Linz. As Gruberstraße GmbH had ceased its business activities in July 2014, but was still in existence in May 2017, the Austrian Court of Audit (ACA) directed recommendations in this regard to its indirect owner, the city of Linz. The planning and execution of construction projects were not subject of the audit.

The selection of the Gruberstraße GmbH as a subject matter was based on a random sampling method. This method also includes legal entities that would otherwise not be audited in the framework of the regular risk-oriented selection process (e.g. due to their small financial scope).

Problems/shortcomings identified

Problems/shortcomings related to the efficiency of real estate management

No transparent procedure was applied for the selection of the private shareholder of Gruberstraße GmbH.

Public procurement law was not applied when awarding construction services to Gruberstraße GmbH for the adaptation of the building at the property. Furthermore, project development services were awarded directly to Gruberstraße GmbH.

Gruberstraße GmbH passed on parts of this amount to a company of its private shareholder without a tendering procedure or obtaining comparative offers. This caused a conflict between the interests of the public investor (in providing services at a reasonable price) and those of the private shareholder in optimising revenue for its own companies.

The remuneration agreement between the public and the private shareholder contained incentives for the private shareholder to make Gruberstraße GmbH uneconomical and for the private shareholder to optimise revenues.

As of May 2017, the public shareholder leased all usable areas of the property or granted them as building rights. All rental agreements contained a long-term waiver of termination by the tenants, which reduced the revenue risk for the public shareholder.

The rights and obligations of the owner of the property and financier of Gruberstrasse GmbH for the purpose of developing the property were unclear due to the lack of binding written agreements.

Recommendations provided

In total, 14 recommendations were provided. The recommendations of the ACA were aimed in particular at ensuring the best economic solution in the awarding of contracts while exploiting the market potential. The ACA highlighted the following recommendations in particular:

- The public shareholder of the Gruberstraße GmbH should check the suitability of several companies in a selection procedure before founding a company with a private company and document the reasons for the selection.
- The City of Linz as owner as well as the public shareholder of the Gruberstraße GmbH, should check the application of public procurement law before concluding contracts and apply it where applicable.

Implementation of recommendations

The assessment of the implementations status has shown in 2019, that all recommendations of the ACA have been implemented or implementation has been promised.

Wohnfonds Wien (Vienna housing fund) (2018)

Type of the audit

Performance audit

Audited period

The audited period largely spanned the years from 2012 through 2016. The ACA audited in 2016/2017. The audit report was published in 2018.

Audit scope and objectives

The Austrian Court of Audit (ACA) carried out an audit of the administration of funds by the Wohnfonds Wien (Vienna housing fund). The audit aimed at assessing the organization, the financial and economic situation, the performance of tasks, the human resources

management and compliance related measures. Additionally, the ACA audited the development of real estates whose allocation to the Wohnfonds Wien had been decided by the City of Vienna in 2010.

Problems/shortcomings identified

The City of Vienna established the Vienna Housing Fund as a fund with its own legal personality on the basis of a municipal council resolution in 1984. The purpose of the fund was in particular the preparation, implementation and monitoring of urban renewal measures and the acquisition, preparation for construction and transfer of land for social housing against payment.

Problems/shortcomings related to the efficiency of real estate management

With the Presidium, the Board of Trustees, the Advisory Board and the Management Board, the Vienna Housing Fund had four organs. A managing director represented the Vienna Housing Fund externally. The appointment of the managing director in 2007 was not preceded by a public tender. The appointment was therefore non-transparent and not comprehensible. The contract of the managing director of the Vienna Housing Fund was not based on standards in accordance with the best practice of the Federal Contract Template Ordinance.

The Executive Board of the Vienna Housing Fund linked the remuneration of the managing director to the valorised income of a managing director who left in 2004. Other criteria were not considered in the amount of remuneration. In 2014, the annual salary of the managing director, was above the average annual gross income of the real estate and housing sector.

In addition to the sale of properties, the Vienna Housing Fund granted building rights for social housing to non-profit and commercial building associations. By granting a higher number of building rights, the Vienna Housing Fund would be able to secure the existing properties for social housing in the long term.

Purchase prices for agricultural properties were above the endowment categories, on the basis of which the Vienna Housing Fund calculated what it considered to be a social equity share for the tenant. A high purchase price thus required large-volume social housing in order to cover the expenses of the property acquisition through the sales prices based on the total net floor space of the flats built on the properties.

For two projects, the net floor space determining the sales price was not specified in the tender conditions for the building contractor competition. In one project, this resulted in the net floor space being reduced by 19%. The resulting comparatively higher financing contribution per m² of usable floor space, which had to be paid by the future tenants, represented a financial hurdle for those who need social housing.

Recommendations provided

In total, 41 recommendations were provided. The ACA highlighted the following recommendations in particular:

- In future, the appointment of the management would have to be put out to public tender and the amount of the manager's remuneration would have to be justified.
- In order to secure existing areas for social housing in the long term, more building rights should be granted.
- Not only the fixed basic costs, but also the minimum net floor space to be achieved should be specified in the tender conditions for the developer competition, so that these can be considered accordingly in the jury decisions.

Implementation of recommendations

The assessment of the implementations status has shown in 2019, that the Vienna Housing Fund implemented the majority of the recommendations of the ACA or agreed to implement them.

Bulgaria - Bulgarian National Audit Office

Financial and compliance audits (2017 – 2021)

Audit scope and objectives

The Bulgarian National Audit Office is actively working to improve accountability in the public sector and for the benefit of citizens and society, as the management and disposal of municipal property were one of the main highlights of the audits performed in the period from 2017 to 2021. Management and disposal of municipal property is related to the implementation of basic functions of municipalities assigned by law. Information on the implementation of these activities is essential to assess the conformity of the decisions of municipal councils and mayors' actions with the national legislation.

For the period 2017-2021, compliance audits concerning municipal own property were performed in 75 municipalities. The scope of the implemented audits comprised as follows:

- management of municipal dwellings and municipal buildings with various functions - administrative, commercial (warehouses and market-places), social (centres for social services) or parts of them;
- management and disposal of municipal buildings and lands, including agricultural lands, estates in forest territories, as well as procedures for awarding works or service concessions, economic activity of the municipalities through municipal enterprises or through companies with municipal participating.

Problems/shortcomings identified

Mistakes/shortcomings related to real estate accounting

Frequent weaknesses identified during the financial audits of municipalities related to real estate accounting are as follows:

- Incorrect depreciation of non-current non-financial assets - building stock, resulting from the inadequate calculations of their useful life (not taking into consideration the year of acquisition, the physical wear and tear, and obsolescence) and failure to calculate the assets' residual value. This affects both depreciation expenses and carrying amount of non-current non-financial assets.
- Incorrect classification of assets mainly in the Public Sector Chart of Accounts and the Uniform Budget Classification, which results in misrepresentations in the balance sheet, income statement and budget execution statement.
- Non-disclosed assets (municipal property), which doesn't ensure fair representation and complete disclosure in the financial statements.

Based on the performed tests, the audits formed assessments and conclusions about the compliance of the municipal activities with the legal framework for financial reporting, as a

significant part of the identified incorrect reporting were corrected during the performed financial audits. The results of the performed audits of the municipalities in this studied area are summarized with regard to the identified significant violations/inconsistencies of the legal framework for financial reporting, assessed against the criteria determined in the course of the audit.

Irregularities/shortcomings related to compliance (of real estate) with the law

For the period from 2017 to 2021, the BNAO has identified significant violations and discrepancies in the management and disposal of municipal property, as following:

- ordinances of the municipal councils which regulate the management and disposal of municipal property and municipal dwellings do not comply with the normative acts of a higher degree;
- municipal councils have not fulfilled the legal requirement for the adoption of strategies for management of municipal property for the term of their mandate;
- annual reports on the condition of the municipal property and the results of its management by types and categories of property have not been compiled by mayors and have not been submitted to municipal councils;
- the municipal councils have not determined the private municipal estates, and the mayors have not specified the municipal movable tangible property, that shall be subject to obligatory insurance;
- the legal requirement for insurance of all built-up estates which are public municipal property has not been fulfilled;
- illegally, in the composition of the commissions for conducting public tenders and/or competitions for renting and disposing municipal property, the respective mayors of mayoralties or employees designated by them were not included, in cases where the properties are on the territory of individual mayoralties - outside the municipal seat;
- infringements have been detected in the conduct of the procedures (public tenders and/or competitions) for rent and disposal of municipal property;
- mayors' orders for ending the public tenders and awarding a winner have not been provided to the participants by administrative order, thus violating their right to challenge the administrative act, as well as the orders have not entered into force against the participants;
- contracts for rent and sale of municipal estates have been concluded before the entry into force of the mayor's order to announce the winning bidder, thus giving grounds for their cancellation in case of dispute in court;
- public municipal estates have been leased without a decision of the municipal council, which is not in compliance with the legal requirement;
- when conducting tenders for renting municipal estates, basic (initial) rental prices have been announced, which are not in accordance with the ones determined by the municipal council;

- contracts for renting private and public municipal estates were not entered in the main registers of municipalities;
- when renting parts of estates - public municipal property, intended for cultural, educational and public events, legal requirements are not met;
- the mayors have not terminated the rental contracts in the cases of non-payment of the rent prices for more than one month or in case of systematic non-payment;
- no actions have been taken through the court to collect the rent duties unpaid in time;
- contracts for sale of municipal real estates have been concluded before the determined price has been paid;
- acts for municipal property had not been issued for significant number of agricultural lands and estates in forest territories, which have been reinstated in possession of the municipalities. As a result, these estates could not be managed effectively through renting or disposal.

Problems/shortcomings related to the efficiency of real estate management

For the period 2017-2021, the BNAO had not implemented performance audits related to management of municipal property. The implementation of the strategies for municipal property management and the annual programs for management and disposal of municipal property has not been audited in full.

The main conclusions from the performed compliance audits are that the municipalities sell municipal properties as a way to gain own revenues and to a lesser extent look for new ways to increase the efficiency of their management and to generate own revenues on that base. In addition, the collection of rents from municipal property is low and volatile over time. The management of municipal property is not efficient enough and needs improvement.

Recommendations provided

Based on the performed audits, assessments and conclusions were made concerning the compliance of the activities of the municipalities with the legal framework and the contracts, and the BNAO gave recommendations for improving the activities related to management and disposal of municipal property.

Implementation of recommendations

As a result of the performed audits and in implementation of the recommendations given by the BNAO, the ordinances of the municipal councils regulating the management and disposal of municipal property have been updated; the implementation of the activities was brought in compliance with the national legislation, the internal acts and the contracts concluded; the condition and functioning of the financial management and control systems in the studied area has been improved. New or updated rules and procedures have been introduced, actions have been taken to collect overdue rents, new significant risks have been identified and adequate control activities have been established to ensure the compliance of the processes with the legal framework.

Thus the interests of all parties concerned are protected - both the population of the municipalities and the individuals and legal entities operating on their territory, who are not residents/are not registered on the territory of the audited municipalities.

Estonia – Riigikontroll

How many buildings do local governments have and what kind of problems do they face in their management? (2016)

Type of the audit

This is an overview, not an audit.

Audited period

National Audit Office investigated the real estate owned by local governments and their undertakings at the end of 2015 and the real estate management expenses in 2015. The results are published in October 2016.

Audit scope and objectives

The purpose of the overview was to ascertain how many buildings do local governments own, how many of them are disused and what is the perspective of currently neglected property. The overview will be of help to the local governments that are preparing to merge in the course of the administrative reform and to the state in planning post-reform activities.

During the preparation of the overview, the National Audit Office considered the following:

What did the National Audit Office investigate?

- collected data from all 213 local governments about the buildings owned by the local governments and their undertakings as well as the purpose, condition, maintenance expenses, outlook and need for investment of these buildings;
- interviewed all the local governments in three regions with diminishing population (Hiiu County, Põlva County, southern part of Valga County) to learn about the challenges they have faced in finding a function for buildings that are partly or fully disused due to the decreasing population;
- interviewed five local governments (Lüganuse, Saarde, Suure-Jaani, Türi, Väike-Maarja) that were formed during the merger of municipalities or towns from 2005-2015 to find out how the use of buildings had been optimised after the merger.

Why is this important to taxpayers?

Owning property comes with the obligation to maintain it. Since buildings must be suitable and safe for exploitation, the expenses must be incurred irrespective of how intensely they are used. The primary function of property is to support the provision of public services and, similar to other supporting functions, everything related to property must also be organised as efficiently as possible.

According to balance records, buildings and investment properties comprised 11% of the state's fixed assets in 2015, and as much as 42% of the fixed assets of local governments.

However, the share of the expenses for managing properties, buildings and premises comprised 4.8% of the total labour and management expenses of the state and as much as 8.9% of the same expenses of local governments. The share of buildings among the fixed assets of local governments is proportionally almost four times larger than in the case of the state, and the amount spent on their maintenance is proportionally ca twice as big as the amount spent by the state.

Some figures about the property of local governments revealed by the survey of local governments:

What did the National Audit Office find and conclude on the basis of the overview?

- local governments and their undertakings had 5386 buildings recognised among their fixed assets in their possession as at the end of 2015;
- their closed net area totalled 5.6 million square metres (for comparison: state agencies possessed 2.2 million m² of buildings at the same time);
- considering the average expense per square metre, the management expenses of their buildings were approximately 90 million euros in 2015;
- according to local governments, half of the buildings are in a good or excellent condition, but a little over a tenth in a bad or very bad one;
- schools comprise a third of the area of local governments' buildings, their maintenance requires the most money (ca 29 million euros per year) and their investment needs are also the biggest according to the estimates of local governments;
- local governments estimate that they will need 81% of their buildings completely and 8% of them partly also in five years' time, their reconstruction would require 838 million euros in total. For comparison: according to the Ministry of Finance, local governments and their undertakings invested 1.15 billion euros in fixed assets from 2011-2015 (the money invested in buildings cannot be highlighted separately - in addition this amount also includes investments in roads, communications and street lighting, etc.);
- local governments would like to demolish 18% of buildings and the cost of their demolition according to their estimates would be ca 3.5 million euros.

Problems/shortcomings identified

Problems/shortcomings related to the efficiency of real estate management

The main problems identified during the preparation of the overview are as follows:

- The local governments engaged in administrative reform negotiations do not want to decide which buildings they actually need for the provision of services in the merging local government and which buildings should be realised. Instead, they prefer not to discuss the issues related to the shrinkage of services, as it may cause opposition in the community. However, all of the local governments that have merged so far

claimed that some buildings will no longer be used after the merger or a new use will have to be found for them.

- When local governments plan their infrastructure investments, they consider the buildings, for which investment support is possible. The long term necessity of these objects is not certain.
- Disposing of disused buildings outside cities is complicated for local governments due to the special purpose of these buildings. Buildings that can be redesigned as residential or industrial building have been more successfully disposed of. Usually, there is no interest in disused buildings and even if a building is successfully sold, it is often disused years later. Many buildings of local governments are architectural monuments, which means that finding a use for them is difficult because of their specific room layout and high renovation expenses, but which cannot be demolished.
- Buildings that used to belong to the state and are disused at present cause concern to local governments. In addition to cities, such buildings can also be found in other regions. It is difficult to find further use for these disused buildings (e.g. former children homes, special care homes, vocational educational institutions). Local governments have often agreed, at the insistence of the state, to take over such buildings without any sale potential to avoid their deterioration, even though finding a use for them is very difficult. In the cases where the state has decided to find a new owner for a building itself via Riigi Kinnisvara AS, the local community is generally not involved in the sales negotiations.

Recommendations provided

As it is not an audit but an overview, the recommendations weren't provided. In order to pay attention to distributing investment funds from budget, the general guidelines were provided to the state government:

- in the course of the administrative reform, local governments should figure out which buildings they will actually need in the future, which unnecessary buildings can be sold and which should be demolished;
- some of the merger support received in the course of the administrative reform should be used for demolishing unnecessary buildings;
- in the future, more investments should be planned from local funds, as this allows local authorities more flexibility in considering their needs. The state should definitely keep the application of this principle in mind as it reviews the financing of local governments in the course of administrative reform. The support granted by the state should be an addition to the local government's own investment funds, primarily for renovating sustainable buildings, based on calculations of measurable values (e.g. sustainable educational buildings);
- the state, Riigi Kinnisvara AS and local governments must ascertain how many vacant office premises belonging to the public sector there are in country centres and where

they are located, how many of them are needed, and look for optimal solutions of taking them in use;

- as there is a big shortage of nursing care homes in local governments, the children's home or special care home buildings disused by the state in the area should be used for this purpose as much as possible;
- the state must require Riigi Kinnisvara AS to cooperate fully with local governments in the development of the terms and conditions (of sale) concerning the further use of the buildings transferred to them.

Implementation of recommendations

As it is not an audit but an overview, the recommendations weren't provided and no follow-up activities were planned or carried out.

Hungary – Allami Számvevőszék

Compliance audits (2017-2021)

Audit scope and objectives

The SAO of Hungary assessed issues related to asset management, not highlighting those related to property management, in the framework of audits conducted at local governments. In the year between 2017-2021 the SAO of Hungary has published 51 municipality audit reports concerning the filed of asset management. The purpose of the audits related to the management of municipal property is assessing the situation of municipal property and the regularity of management and asset management on the basis of the property inventory and the accounting and regularity of economic events. The audits typically covered properties owned by municipalities.

The State Audit Office of Hungary also carried out audits on the follow-up of previous audits related to asset management.

Besides to the above, the asset management of local governments was concerned by the audits of municipally owned and partly owned companies. In the year between 2017-2021 the SAO of Hungary has published 213 municipal company audit report. The audits under the municipal ownership extend to create the framework of the ownership over companies while the audit of the companies extends to regulation, asset management and asset protection.

Problems/shortcomings identified

Mistakes/shortcomings related to real estate accounting

Typical accounting deficiencies were identified such as: deficiencies in keeping asset records and documentation of the placing in service of assets, the lack of coordination of certificates, general and analytical records, as well as errors in the evaluation of assets in the balance sheet.

Irregularities/shortcomings related to compliance (of real estate) with the law

The followings did not comply with the relevant legal requirements: system of accounts, the lack of rules for the inventory of assets and liabilities, as well as the valuation rules; the lack of stocktaking to support the balance sheet and the deficiencies of drawing up an inventory and the shortcomings of asset management.

Problems/shortcomings related to the efficiency of real estate management

Deficiencies in the management of assets were established with regard to the contracts concluded for the utilization of the assets, as well as due to the non-fulfillment of the audit obligation in the framework of the exercise of ownership right.

Recommendations provided

Based on the findings of the audits, the State Audit Office of Hungary made a proposal to prepare the missing regulations, adjust the incorrect regulations and practices, prepare the inventory, which supports the balance sheet, implement the inventory and fulfill the audit obligation related to the ownership.

Implementation of recommendations

In the case of 45% of the follow-up audits performed on asset management, the audited organizations corrected the deficiencies and errors revealed by the previous audits, on the basis of which the regularity of asset management improved.

In almost half of the follow-up audits (49%), the audited organizations partially corrected the deficiencies and errors revealed by the previous audits, so risks could still be identified in some areas of asset management. In the case of the remaining 6%, the audited organizations did not take any measures to correct the deficiencies and errors revealed by the previous audits.

Based on the findings of the follow-up audits, the State Audit Office of Hungary drew the attention of the heads of the audited organizations to the identified risks in the framework of letters of formal notice.

Israel – State Comptroller's Office

Allocation of Municipal Land to Non-Profit Organisations (2017-2021)

Type of the audit

Compliance along with performance audit

Audited period

Audits from 2007 till now.

Audit scope and objectives

Local authorities in Israel are eligible to allocate their lands to public Non-Profit Organisations (NPOs) for free and without a tender. The land itself remains the property of the allocating municipality and is considered part of its real estate portfolio. The possible uses are for the following activities: Education, culture, science, religion, social services, charity, health and sports.

Although land is a scarce and very expensive resource in Israel, until 20 years ago it was allocated without any orderly procedure and criteria. In 1999 the Supreme Court of Justice had published a judgement which enforced the Interior Ministry to issue a circular on this matter 2 years later. According to the circular, local authorities are obliged to appoint a professional committee for such allocations and to publish guidelines with a list of criteria that should allow for a transparent, fair and equal process. The authorities must also monitor the proper use of the land in accordance with the allocation's terms.

SAI Israel was engaged since 2007 in auditing the allocation of land as part of a broader policy to monitor various aspects of the management of municipal real estate and property. The audited entities were mostly municipal authorities and some relevant ministries, like the Ministry of Interior.

Problems/shortcomings identified

Back in 2007 SAI Israel published a milestone report about land allocations.

Irregularities/shortcomings related to compliance (of real estate) with the law

The audit primarily dealt with problems related to compliance of allocation process with the law, judgements and circulars. Following are some of the most remarkable findings.

The audit found that many local authorities had continued to allocate lands in a faulty process: Without a professional allocations committee, guidelines and criteria; in some cases, where a professional committee was convened, politicians intervened in its decisions; in practice, many of the allocations were given to religious NPOs, partially due to political considerations. Moreover, the audit has found a long series of shortcomings once the lands have been allocated; inter alia, the absence of a written contract with the beneficiary NPOs and failure to register the allocations in the municipality properties and allocations books. The authorities also failed in supervising how NPOs use the land.

A series of audits carried out since then have shown little improvement in the management of municipal land in the above respect. Following are some of the most remarkable findings:

- In the city of Beit-Shemesh (Pop: 132,210) we have found an unauthorised synagogue built over a nursery school which was the beneficiary of the allocation. Furthermore, the synagogue's construction was unfinished and without a building permit - posing a risk to the safety of the nursery school.
- In Jerusalem (Pop: 952,917), 13 years after a land was allocated, the construction of a religious school was still unfinished, while the building was already used by the school, presenting a major danger to the students.
- Additionally, senior politicians have received allocations for organisations they were linked to. This undermined the effectiveness, fairness and equality of the allocation process.
- Some of the properties were allocated without any signed contract to determine the duties of the parties. Therefore, in some cases the local authority itself covered the costs of water and electricity consumption by the beneficiary NPOs.

Problems/shortcomings related to the efficiency of real estate management

Another set of problems with which the audit has dealt (albeit to a lesser extent) are those related to the efficiency of the real estate allocation process.

In municipalities of various sizes, allocations were not registered in the appropriate book as required. As a result, the local authorities had no knowledge of the allocated properties and their condition. Without such knowledge, the authorities could not monitor the use of the properties - some of which contradicted the uses allowed by the area's building plan or municipal programme.

Recommendations provided

Among the various insights of those reports, the main one is that once the allocation is done, the process becomes virtually irreversible; it is almost impossible to take the land back after construction has commenced, even when the usage contradicts the allocation's terms and public interest or when the legality of the allocation process is dubious. In that respect it should also be added that in the very few cases where municipalities have taken legal action against breaching beneficiaries, courts of law in Israel tend to prefer the beneficiaries' stance that revoking the allocations after they have invested monies in construction over the allocated land may harm their basic rights.

Therefore, the main conclusion is that it is extremely important to assure that the allocation process is fair and transparent. Once the allocation is made, the allocating municipality must also maintain strong administrative and legal mechanisms that will enable the proper monitoring and enforcement (when needed) of the appropriate use of its property.

The municipalities must prepare a Programme which defines the preferred uses, while taking into consideration future demographic developments, changes in ways of life and technological advancements. Therefore, it is imperative that municipalities reassess the allocation parameters from time to time.

Another important recommendation is to prevent any political influence on the allocation process. That influence deems the process unfair and may result in inefficient land allocation.

Implementation of recommendations

The recommendations have been partially implemented by the Ministry of the Interior, which upholds a stricter policy concerning permits and a more thorough supervision system.

Latvia – Latvijas Republikas Valsts kontrole

Management and implementation of the real estate projects of Riga City Council's Property Department and Riga City Council's municipal enterprises (2021)

Type of the audit

Compliance & performance audit

Audited period

The audit report was published in 2021. The audited period: 01.01.2015.-30.06.2020.

Audit scope and objectives

The objective of the audit was to evaluate whether municipally owned property is managed economically and efficiently, in accordance with good practice and in the interests of the municipality's residents. Since the State Audit Office of Latvia previously had already audited several areas of Riga's real estate (management of transport infrastructure, apartment buildings, forests, parks, and other recreational areas), this audit focused on buildings used for provision of municipal services, such as schools, offices, and social housing.

The audit was carried out in the Property Department of the Riga City Council, which is the municipality's leading institution in real estate management, as well as two municipally owned enterprises, which are involved in real estate development and maintenance – 'Rigas serviss' Ltd. and 'Rigas pilsetbuvnieks' Ltd.

During analysis of the municipality's real estate transactions and their values, the audit scope was limited by opinions of property appraisers. Since the appraisal values can be officially challenged only via the association of certified appraisers, which is reluctant to re-evaluate property appraisals, the auditors refrained from making any conclusions regarding correctness of property values.

Problems/shortcomings identified

Irregularities/shortcomings related to compliance (of real estate) with the law

The municipality has not fully complied with the statutory requirements on the maintenance and inspections of buildings' technical condition and fire safety. Maintenance and refurbishment of buildings has not always been the highest priority, for example, the municipality allocated funds for renovating a school's museum rather than introducing a fire detection system at the school, although the latter was a mandatory requirement.

Problems/shortcomings related to the efficiency of real estate management

The audit concluded that the real estate governance system in the Riga City Council has been established several decades ago and does not correspond to the latest trends in real estate governance. The governance model is fragmented, lacking standardised governance principles, lacking cost analysis of various processes and specific properties, lacking clearly defined tasks and performance indicators, and lacking full-fledged control and evaluation procedures.

Auditors found out that the Property department does not record and analyse costs for real estate governance processes or the financial indicators of individual real estate objects. In such a situation, neither the Department itself nor external evaluators can analyse the cost-effectiveness and effectiveness of the municipal real estate governance model.

The audit also highlighted problems with completeness, reliability, and availability of data on municipally owned real estate and its technical conditions. For example, municipality's real estate inventory database listed buildings that do not exist, such as a 'residential building' in a cemetery or an 'administration building' in a place where auditors found only a lawn and shrubs.

Likewise, improvements are necessary in the field of real estate transactions, where the municipality has often failed to assess the long-term implications of its decisions. For instance, to provide public housing the municipality purchased eight apartment buildings in territories of other municipalities. As a result, the municipality maintains the buildings and covers credit liabilities, while the residents' income tax shares are received by the municipalities where the buildings are located. Auditors calculated that from three buildings alone the Riga City Council has not obtained budget revenues of at least 1.4 million euros. In another example, the municipality sold real estate first and then repurchased it from the same individual, resulting in wasteful use of administrative resources and financial resources of at least 131,226 euros.

Recommendations provided

Following the audit findings and conclusions, the main recommendations to the Riga City Council are as follows:

- identify all municipal real estate and its technical condition and evaluate its perspective use;
- define the principles of real estate governance based on economy, efficiency, and effectiveness and develop a common real estate governance strategy in the municipality;
- regularly assess performance of the real estate governance by means of accurate accounting and analysis of the financial resources spent for real estate governance and monitoring and evaluating the implementation of the activities specified in the development planning documents of the sector;
- implement real estate development projects purposefully, rationally and in accordance with pre-set priorities;
- facilitate transparent and justified real estate transactions, including the development of a methodology for the calculation of rent, and setting the criteria for priorities and elaborating a long-term plan for the acquisition and expropriation of real estate;
- ensure transparency in real estate transactions, including the improvement of the methods and channels for information publication.

Implementation of recommendations

Implementation of recommendations is expected by 2022.

Do municipalities meet the preconditions to ensure that the buildings they manage meet safety requirements? (2020)

Type of the audit

Compliance & performance audit

Page | 34

Audited period

The audit report was published in 2020. The audited period: 01.01.2017.-31.12.2018.

Audit scope and objectives

One of the audit objectives was to evaluate how ten municipalities maintain municipally owned residential and non-residential buildings and control their safety. The audit also analysed how municipalities carry out these tasks in municipally managed apartment buildings – due to historical and legal reasons, in many apartment buildings individual apartments are owned by private persons, but the building itself is still managed by the municipality, which also makes decisions on the necessary repairs.

Another audit objective was to evaluate activities of the Ministry of Economics in development and implementation of housing and construction policy.

Problems/shortcomings identified

Irregularities/shortcomings related to compliance (of real estate) with the law

The audit found out that several obligations for real estate owners exist on paper only. Although the law states that owners cannot refuse to carry out maintenance activities, routine repairs and reconstruction measures, individuals as well as municipalities often do not invest in the necessary works. The fee for the management of apartment buildings was determined historically and mostly covers only the costs of administration and mowing grass. As a result, 62 of 82 analysed residential buildings had significant damages (e.g., roofing, water supply, sewage systems, electrical wiring), and 51 of these buildings also had damage related to improper construction and operation of chimneys endangering human health and life.

Significant problems were also identified in safety of non-residential buildings, such as administrative buildings, schools, libraries, museums. Although municipalities themselves decide the principles and procedures for managing non-residential buildings, only one of ten municipalities had introduced such procedure. Consequently, the State Construction Control Bureau of Latvia identified safety deficiencies in 74 public buildings, including 21 buildings which should not be used at all.

Problems/shortcomings related to the efficiency of real estate management

Auditors indicated that none of the ten municipalities used a risk-based approach for safety controls.

Considering that it is impossible to inspect all buildings, good practice would be to use a risk-based approach and carry out inspections in buildings where the threat to public security is the highest. However, the number of scheduled inspections is low, and strategy chosen by the municipal construction boards - to already degraded and collapsed buildings - cannot guarantee that resources will be used where they are most needed. Moreover, municipal construction boards do not use data

that is easily accessible to them, nor do they cooperate with other institutions that have information about buildings where risks might exist.

The audit also highlighted that state and municipal support mechanisms for improving technical conditions of buildings are not sufficient, and residents cannot afford to eliminate the safety problems on their own.

Recommendations provided

Following the audit findings and conclusions, the Ministry of Economics was recommended to identify the problems affecting the safety of buildings and to choose the most appropriate solutions for their elimination.

At the same time, municipalities were recommended to identify the technical condition and the amount of necessary investments of buildings they own and manage. To improve the efficiency of safety inspections, the State Audit Office recommend municipalities to increase the amount of risk-based inspections and to assess the need to change the form and subordination of construction boards.

Implementation of recommendations

Implementation of recommendations is currently on-going.

Compliance of Municipal Infrastructure Objects and Project Funding System, Process, and Criteria with Principles of Rational Use, Efficiency, and Sustainability of Finances (2019)

Type of the audit

Compliance & performance audit

Audited period

The audit report was published in 2019. The audited period: 01.01.2015. – 30.06.2019.

Audit scope and objectives

On one hand, the audit was devoted to identification and evaluation of the practices for real estate development in municipalities – renovation and construction of schools, kindergartens, stadiums, swimming pools, concert halls, et al. On the other hand, given the significant amount of government loans for infrastructure development issued to municipalities, the audit also paid attention to the fact whether the state-provided loan system ensured compliance with the common national objectives and whether it promoted a responsible approach in municipalities to investment planning.

Therefore, the objective of the audit was to evaluate whether municipalities plan, finance and implement infrastructure development projects legally, efficiently, and according to the good practice of project management, as well as whether the municipal loan system has ensured financing of sustainable and efficient projects. The audit scope included 15 municipalities and the Ministry of Finance.

Problems/shortcomings identified

Problems/shortcomings related to the efficiency of real estate management

The audit revealed a number of weaknesses in the planning, financing, and management phases of real estate development projects, which require improvements.

Auditors concluded that many municipalities borrow excessively for the construction of objects that do not correspond to the real situation in municipality and needs of residents. Likewise, the audit identified weaknesses in planning and implementation of real estate projects (for example, lack of revenue and expenditure analysis, lack of information about the maintenance costs and attendance figures).

Moreover, municipalities do not consult experts in the field, such as sports federations, in a timely manner on the specific requirements of infrastructure objects. As a result, deficiencies are identified during construction and operation, resulting in additional costs due to changes in design. For example, the Latvian swimming federation indicated that none of the audited municipalities had ensured that their newly built swimming pools comply with the requirement of the International Swimming Federation.

Lastly, existing borrowing conditions in the State Treasury for financing of municipal projects do not facilitate the implementation of population needs-based and targeted projects either.

Recommendations provided

Based on the audit findings, the 15 municipalities were recommended to improve their project planning, implementation, financing, and monitoring processes, namely:

- to promote purposeful development of infrastructure in accordance with priorities and the needs of the population;
- to improve the financial flow forecasts prior to project implementation;
- to facilitate the evaluation of the project results and the necessary improvements in the operation of the facility.

Recommendations have also been made to the Ministry of Finance to improve the loan-granting system to local governments.

Implementation of recommendations

All 15 municipalities have implemented the recommendations given to them. The municipalities improved processes and internal legal acts concerning project planning and implementation, carried out cost-benefit analysis for up-coming real estate projects and evaluated performance of existing infrastructure objects. The recommendations given to the Ministry of Finance are currently in the process of implementation.

Does 'Rigas Mezi' Ltd. manage the municipal forest in compliance with legal requirements? (2017)

Type of the audit

Compliance audit

Page | 37

Audited period

The audit report was published in 2017. The audited period: 01.01.2015.-31.03.2017.

Audit scope and objectives

'Rigas Mezi' Ltd. is a municipal company whose purpose is to manage forest lands, gardens and parks owned by the Riga city municipality. The objective of the audit was to ascertain whether the company has carried out this task legally.

Problems/shortcomings identified

Problems/shortcomings related to the efficiency of real estate management

The audit results showed that the Riga City Council did not properly manage the company and did not effectively supervise the implementation of tasks delegated to the company. The operation of the company was principally oriented towards its economic interests, rather than systematic management of the municipality's forest area. The company did not ensure that the making of felling sites complied with the municipality's forest management plan 2012-2016, meanwhile in 2017 the fund of felling sites was developed without approved forest management plans.

In order to obtain additional profits, in 2013 the company expanded its operation beyond the task delegated by the Riga City Council — to manage the forest area — and participated in a commercial activity in the timber industry by creating a sawmill 'Norupe'. Municipalities are allowed to participate in commercial activities only in certain situations, for example, to fill a market gap or to create goods of strategic importance for the development of municipality's administrative territory or national security. In the view of the State Audit Office such an action did not comply the legal requirements concerning participation of public persons in commercial activities and distorted competition in the forest industry.

Additionally, the procedure for granting the annual subsidy to the company for the management of gardens and parks in amount of almost 2 000 000 euros should be improved significantly, because the subsidy is granted without setting the exact amount of the work to be done and without follow-up quality control of the performed work.

Recommendations provided

Based on the audit findings, the State Audit Office recommended the Riga City Council in cooperation with the company to address the non-compliance in the municipality's forest management and performance of the tasks delegated to the company and to ensure:

- timely development of the forest management plan and control of its implementation;
- participation of the company in commercial activities only in compliance with the law;
- control over the performance of the management tasks delegated to the company;

- transparent financing of municipality's gardens and parks, namely, separated accounting of respective expenses and traceable link between the financing and the tasks to be performed.

Implementation of recommendations

Currently 'Rigas mezi' Ltd. has implemented three of four recommendations. To implement the recommendations, the company developed forest management plans and provided control mechanisms for their implementation. The company also provided more transparency in the use of the grant for management of Riga city gardens and parks. Likewise, the company developed criteria for determining the most advantageous way to receive the necessary services, i.e., to hire employees or to outsource (accounting, legal services, etc.).

However, the company has not yet terminated the commercial involvement in timber industry. The State Audit Office is in regular contact with the municipality regarding this issue and follows the progress of implementation.

Lithuania – National Audit Office of Lithuania

Management of state real estate transferred in trust to municipalities (2020)

Type of the audit

Performance audit

Audited period

The audited period: 2017 – the first half of 2019. The audit report was published in 2020.

Audit scope and objectives

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

Key audit questions:

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

Audited entities: - 56 municipalities.

Audit subject: the State real estate 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 real estate. During the audit, leased residential premises were not evaluated either.

Problems/shortcomings identified

Problems/shortcomings related to the efficiency of real estate management

The audit found that 39 municipalities had not ensured that 53% of the State real estate entrusted to municipalities would be managed and used rationally, and the decisions taken on the use and management of this real estate would ensure the maximum benefit to the public and meeting its needs.

One-third of municipalities holding in trust the State-owned real estate do not have precise and detailed information on it

Nineteen municipalities held in trust State real estate objects that have been assigned but not yet transferred to their ownership under the Law. Until the beginning of the audit, 14 municipalities did not know about 39% of these objects (61 real estate objects, 4.4 thousand square metres), had not included them in their accounting nor take their inventory. As a result, 39% (24 out of 61) State real estate objects were not used, 46% (28 out of 61) of the objects were abandoned, decayed (destroyed), 15% (9 out of 61) of the objects are used by natural persons, although the property has not been transferred to them.

Municipalities did not have accurate and complete information necessary to ensure efficient management of the State real estate entrusted to them. The audit identified cases when:

- municipal real estate inventories did not show the actual condition of the State real estate held in trust by municipalities because it was not established during the inventories that property objects have been abandoned and decayed;
- the accounting data of municipalities were inaccurate and incomplete as they did not show all the volume of State real estate objects or their parts held in trust.

Municipalities have not ensured that the information of the Real Property Register about the State real estate held by them was accurate and current. The audit identified cases when:

- municipalities had not registered objects of the State real estate held in trust by them in the Register;
- municipalities had not recorded in the Register that objects are decayed, destroyed, or otherwise physically damaged;
- municipalities had not registered in the Register the concluded State real estate loan-for-use agreements or their amendments;
- municipalities had not registered State real estate lease agreements.

Therefore, the manager of centrally managed State property State enterprise “Turto Bankas” and other users of public data had no possibilities to obtain comprehensive and accurate information on the State real estate held in trust by municipalities which is necessary for decision-making based on data analysis.

Fifty-three percent of State real estate held in trust by municipalities was not used or was used for the exercise of the other functions than originally entrusted

The Law provides that the State real estate 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). The audit identified cases when municipalities did not use the State real estate for the functions for the implementation of which it was transferred:

- municipalities used State real estate to perform other State functions,
- municipalities used State real estate for the implementation of independent functions,
- municipalities transferred State real estate on the loan-for-use basis to other State budgetary institutions,
- municipalities have provided State real estate for use to natural and legal persons who do not perform State or municipal functions,
- municipalities have not used State real estate in their activities.

Municipalities failed to fulfil the obligation stipulated in the legal act and did not take actions to return to the State the State real estate, which is not required to perform their functions, therefore, the efficient use of the State real estate meeting the public needs was not ensured.

The municipalities held in trust State real estate objects, which were abandoned and decayed. The municipalities did not take timely action on the write-off and liquidation of the tumbledown or physically degraded real estate, therefore, the real estate degrades further and causes danger to the public.

The municipalities have not taken decisions on the use of real estate unnecessary to perform 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 real estate held by municipalities was therefore managed and used inefficiently.

The process of management of the State real estate transferred in trust to municipalities is not fully regulated: the process of establishing and substantiating the need for State real estate, the criteria on the basis of which the Government would take decisions to transfer the State real estate to a municipality and the monitoring and control process of the use of the State real estate 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 the State functions (delegated by the State to municipalities). The absence of the monitoring and control system of the use of State real estate creates preconditions for using it for other activities or for not using it at all.

Recommendations provided

Recommendations were provided to the Government of the Republic of Lithuania and to the municipalities.

In order to make sure that State real estate is managed and used efficiently and ensuring that public needs are met, SAI proposed to establish:

- procedures for assessing the need for the State real estate planned to be transferred to municipalities to exercise the State functions;
- procedures for monitoring and control of the use of the transferred State real estate in municipalities;
- the duty of municipalities to submit reports to the State authorised institution on the actual use and condition of the State real estate which they have received for the purpose of exercising State functions.

The main recommendations to the municipalities:

- To make sure that the State real estate held in trust by municipalities is managed and used efficiently and ensuring that public needs are met, to assess whether the State real estate 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.
- To ensure that the accounting of the State real estate held in trust by municipalities is accurate and complete, to record in the accounts all State real estate hold in trust and take measures to make sure that all accounting data is accurate and comprehensive.
- To ensure that the results of inventories of the State real estate 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.
- To ensure that the data of the Real Property Register about the State real estate held in trust by municipalities is accurate and complete, revise and update the Register data.

Implementation of recommendations

Implementation of all recommendations is expected by 2027.

Management of municipal real estate (2020)

Type of the audit

Summary report of the results of performance audits carried out by municipal control and audit services (SKATs).

Page | 42

In 2018, the National Audit Office of Lithuania (NAOL) carried out an audit of the State real estate management, which found that the management of the State real estate does not generate adequate benefits, is poorly linked to efficiency, and there are no long-term real estate management guidelines. In 2019, having assessed that the municipalities in the country may face similar problems, the NAOL invited SKATs to carry out a coordinated audit of the real estate managed by municipalities.

The coordinated audit was joined and carried out by 55 out of 60 SKATs. SKATs assessed the management of real estate held by municipalities by the right of ownership, while the NAOL assessed the management of the state-owned real estate transferred to municipalities by the right of trust (the key results are presented above).

Audited period

The audited period: 2017 – the first half of 2019. The summary report was prepared on the basis of the audit reports, published by SKATs in 2020.

Audit scope and objectives

The aim of coordinated audit was to assess whether real estate is managed in municipalities in a targeted and complex manner, whether it is used efficiently and serve the greatest benefit to the public.

The key questions of the audits carried out by SKATs were as follows:

- is the management of municipal real estate planned to serve the public interest;
- is municipal real estate managed, used, and disposed in compliance with the principles of the asset management;
- do municipalities possess information on the managed real estate.

Audited entities by SKATs: 48 municipalities, their institutions, enterprises, agencies, and organisations managing real estate held by municipalities by the right of ownership.

The subject of the audits carried out by SKATs: real estate managed by municipalities by the right of ownership: buildings (including buildings classified as immovable cultural property), premises and parts thereof, and state-owned land under buildings.

Problems/shortcomings identified

The results of audits carried out by SKATs revealed that municipal real estate is not always managed efficiently, in a targeted and complex manner, the maximum benefit to the public is not ensured.

Irregularities/shortcomings related to compliance (of real estate) with the law

In almost half of municipalities real estate has been transferred for management in trust in violation of the requirements of legal acts

The rights and duties of the owner of municipal real estate are exercised by municipal councils; municipal institutions, enterprises, agencies and organisations manage these assets by the right of trust. The results of audits showed cases, when the transfer of real estate for management by the right of trust did not comply with the provisions of the law: municipal councils had not made decisions on the transfer of real estate management by the right of trust or decisions had been made, however, the delivery and acceptance acts of real estate have not been signed, real estate was transferred for management by the right of trust, although it had to be transferred under loan-for-use basis.

Control of the conclusion and execution of loan-for-use and lease agreements is not always ensured

Irregularities related to the conclusion and execution of loan-for-use agreements:

- loan-for-use agreements were concluded with entities that cannot be the beneficiaries of loan-for-use;
- the loan-for-use term, indicated in loan-for-use agreements, was longer than established by legal acts;
- the purpose of the transferred real estate was not specified;
- not all obligations of the beneficiary of loan-for-use were specified;
- the beneficiaries of loan-for-use used the real estate, although the loan-for-use agreements were terminated;
- the real estate was not insured by beneficiaries of loan-for-use.

Irregularities related to the conclusion and execution of lease agreements:

- the term of the lease was not specified in the lease agreements or set longer than established in the legal acts;
- the lease price was not indicated or the lease actually paid by the lessees did not correspond to those specified in the agreement;
- the lessees used the municipal real estate outside the scope specified in the lease agreement.

In all municipalities, there are cases where state-owned land used for the operation of real estate has not been formed and loan-for-use agreements have not been concluded

During the audited period, the municipalities had 33% of real estate objects for which state-owned land parcels were not formed, and 16% of real estate objects for which the state-owned land parcels were formed but the state-owned land loan-for-use agreements were not concluded. Special land use conditions are not applied to the unformed land parcels, the users do not know what activity on the land parcel is possible or what restrictions apply, therefore, there is a risk of illegal use of state-owned land. If the state-owned land-for-use agreements are not concluded and not registered in the Real Property Register, accurate and detailed information on the state-owned land managed on the loan-for-use basis is not available.

Problems/shortcomings related to the efficiency of real estate management

In most of the municipalities, conditions are not ensured for more efficient management of real estate

The guidelines on the promotion of good management of public assets provide that in order to manage assets efficiently, an asset management strategy must be developed, including objectives for assessing what optimal asset base is needed. In 3 (out of 48) municipalities, the directions of

management of real estate held by them by the right of ownership are approved; however, the directions of management of 2 municipalities do not cover all managers of municipal real estate and all activities the implementation of which serve the public interest. The goals, objectives, and assessment criteria of real estate management in 40 (out of 48) municipalities are set out in strategic planning documents in a fragmented manner. Therefore, these municipalities did not ensure the conditions for more efficient management of the real estate held by municipalities by the right of ownership.

In order to ensure that real estate management would bring the maximum benefit to the public, municipalities must involve the public in the planning processes of real estate management, inform about the planned directions of real estate management and the decisions taken. It is not specified what information related to real estate is to be published, therefore, the right of the community to receive information about the management of municipal real estate and to actively participate in decision-making is not guaranteed. Ninety-eight percent of municipalities reported various information on real estate held by them, while 60% of consultations with the community were considered incomplete.

Real estate leased under preferential conditions without alternative assessments

Twenty-six percent of the leased municipal non-residential real estate was leased under preferential conditions and lower than market prices. Municipalities did not carry out calculations of the amount of income received from real estate leased on preferential terms at market prices, and without alternative assessments of the use of the leased real estate, municipal budgets lost part of possible rental income.

Management of municipal housing does not address housing problem

Fifty-eight percent of total real estate managed by 48 municipalities by the right of ownership consists of residential buildings and premises the purpose of which is socially significant – to increase the possibilities to provide housing for families and persons living in the municipality. The audits identified:

- housing regulation has shortcomings;
- municipalities do not have accurate and reliable information on the municipal and social housing, their condition and possibilities to provide such housing to persons or families waiting for it;
- conclusion of housing lease agreements has shortcomings;
- determination of the amount of the rent has shortcomings;
- municipalities do not ensure effective control of the execution of contractual lease obligations.

The function assigned to municipal councils by the Law is to prepare and implement social housing development programmes in municipalities. All the municipalities had approved programmes for the development of social housing, or the development of social housing had been embedded in other municipal strategic planning documents. However, not in all municipalities the development of social housing is sufficient and addresses housing issues: municipalities do not provide sufficient funds for the purchase of social housing and the queue of people waiting for housing is shortening slowly.

More than half of municipalities have not taken decisions on 64% of unused real estate

Ten percent of real estate was not used in 46 municipalities, and more than half municipalities have not taken decisions to declare it unnecessary or not fit (not possible) for use. Having decided to write

off and liquidate such real estate, municipalities have not implemented these decisions. If municipalities do not take decisions on the costs incurred due to the unused real estate, no income is received from the realisation of the real estate, such real estate is deteriorating, and this does not ensure serving public interests.

Part of municipalities delay adoption of decisions regarding the owner of real estate

During the audited period, 42 out of 48 municipalities had 1,614 ownerless real estate objects, but not all of these objects were recognised as ownerless real estate. The duty attributed to municipalities is to collect information about the property located in the territory of the municipality which does not have the owner or whose owner is unknown and to initiate the process of recognition of such property as ownerless property. The real estate recognised as ownerless is transferred for the ownership of municipalities.

While municipalities do not take action on recognising real estate as ownerless, such real estate is deteriorating, polluting the environment and posing a danger to residents, also the municipalities lose the possibility of using this real estate to perform its functions, lease or receive additional income when selling it.

Municipalities do not have accurate information on the real estate held

Reports on the management, use, and disposal of real estate are prepared on the basis of the data of real estate accounts, inventories, and the Real Property Register; therefore, the accuracy and completeness of these data are of utmost importance. Municipalities do not have accurate information to make real estate management decisions because:

- municipalities included into accounts not all real estate objects registered in the Real Property Register, held by the right of ownership or accounted the real estate objects that were not held by municipalities by the right of ownership;
- municipalities did not carry out an inventory of all the real estate held by them by the right of ownership; the real estate inventory was carried out in violation of the inventory rules, as the inventory was not carried out according to the inventory descriptions submitted by lessees and providers of loan-for-use. The inventory descriptions were not based on each real estate object, they did not include any notes regarding real estate depreciation, etc.;
- the rights of ownership of municipalities to not all real estate objects were registered in the Real Property Register or the data of the Real Property Register of municipalities were inaccurate.

Recommendations provided

NAOL prepared a summary report. Recommendations related to the real estate held by municipalities were provided to municipalities by SKATs. NAOL assessed the management of the state-owned real estate transferred to municipalities by the right of trust. The recommendations provided to the government and municipalities are listed above (see the audit “Management of State real estate transferred in trust to municipalities”).

Is housing accessibility assured to low-income residents (2017)

Type of the audit

Performance audit

Audited period

The audited period: 2015. Data from past audits (2012-2014) and 2016 were used to analyse the changes. The audit report was published in 2017.

Audit scope and objectives

The objective of the audit was to assess the success or failure to achieve the goals set in the housing rent and purchase support programme, as well as the success or failure to manage funds and the municipal social housing fund effectively, rationally and legitimately. The audit assessed the following:

- the ability of the housing support system to ensure the accessibility of housing to individuals and families waiting for it;
- the success or failure to achieve the goals set in housing rent and purchase support programme for 2015;
- the success or failure to manage the municipal social housing fund effectively, rationally and legitimately.

The audit was implemented at the Ministry of Social Security and Labour, and 22 municipalities. Information was collected in all of the 60 municipalities and the Department of Regional Development under the Ministry of the Interior.

Audit subject: the Ministry's 2012-2014 special state support programme for the purchase of residential houses and apartments, the 2016 social support programme, and the various programmes implemented by the municipalities.

Problems/shortcomings identified

Problems/shortcomings related to the efficiency of real estate management

The audit identified that the system of housing rent support fails to ensure the effective implementation of the right to housing which applies to individuals who lack the means for subsistence and are incapable of obtaining them independently. Given the lack of social housing in municipalities, all low-income individuals are subject to waiting for social housing in the general queue for up to 30 years. The system of strategic planning in both the ministry and municipalities was not aimed at increasing the accessibility of housing for vulnerable groups.

The development of the social housing fund does not solve the problems related to the provision of housing, and the funds are used ineffectively because municipalities fail to implement cost-benefit analyses and often favour the most expensive options of purchasing housing – the construction of new housing units and the reconstruction of unused buildings – which means they use the same funds to provide social housing to fewer individuals and families than they could. The average price for the construction of new housing units and the reconstruction of unused buildings, as planned by the municipalities, is 2 to 10 times higher than the price of housing on the market.

Recommendations provided

Recommendations directly related to the development of the social housing fund were not provided to municipalities. Recommendations were made to the Ministry of Social Security and Labour – to prepare an action plan and identify measures to improve the legal regulation of housing provision and increase the accessibility of housing to low-income residents.

Implementation of recommendations

The Ministry of Social Security and Labour implemented the recommendations.

Financial audits (2017-2021)

Audit scope and objectives

The National Audit Office of Lithuania (NAOL) does not audit the financial statements of individual municipalities – municipal financial statements of each municipality are audited annually by the Municipal control and audit services. Financial statements of all 60 municipalities are consolidated into the set of National financial statements. Auditing the latter is the annual responsibility of NAOL, imposed by law.

The results of the audit of National financial statements (including the results of audits carried out by municipalities and control audit services in municipalities) are presented in the audit report and the opinion on the set of National financial statements is issued. NAOL does not submit a separate opinion on financial statements of a single municipality as it is the competence of Municipal control and audit services.

Problems, shortcomings related to real estate accounting in municipalities are presented in the audit report of the set of National financial statements.

Problems/shortcomings identified

Mistakes/shortcomings related to real estate accounting

Shortcomings related to real estate accounting in municipalities identified during the audits in 2017-2021:

- Roads and streets are not inventoried, are not legally registered, are not recorded in the accounting or recorded for a symbolic value.
- Cultural assets are recorded in the accounting at incorrect value because they are not measured at fair value.
- Biological assets (parks, squares, greenery) are not recorded in the accounting or recorded incorrectly.

As a result, the balance of fixed infrastructure and other structures assets, biological assets and cultural assets was less and did not reflect the real value of those assets.

Recommendations provided

Municipalities were recommended to inventory and legally register roads, streets, to record them correctly in the accounting, as well as to correctly register biological assets and cultural values in the accounting.

Implementation of recommendations

The recommendations on local roads and streets have not been implemented or have been partially implemented, so the main problem with roads remains - they are not inventoried, not legally registered, they are accounted for at symbolic value, biological assets and cultural values are not properly accounted.

Montenegro – State Audit Institution of Montenegro

Financial and compliance audits (2017 – 2021)

Audit scope and objectives

The State audit institution carried out financial and compliance audit covering verification of the records of the state property and compliance of the use of the state property at the local self-government units in line with laws and other regulations.

The audit objectives are to express opinion on reliability and accuracy of the final budget accounts of the municipality, internal financial management and control system and compliance of its business operation. Compliance of its operation implies expressing opinion on whether the transactions are performed in line with the law, other regulations, authorizations and for intended purposes.

The subject matter of audit are final budget accounts of the municipality for a given year. The SAI analyzed in details the following:

- revenues of municipalities;
- expenditures of municipalities;
- implementation of capital projects;
- records and management of state property at municipality;
- borrowings and guarantees;
- outstanding liabilities.

The subject matter of audit are normative regulation and organization of the municipality, public procurement system and internal financial control system. The findings presented in the text below refer to seven municipalities: Pljevlja, Berane, Ulcinj, Plav, Andrijevica (financial audit and compliance audit) and Budva, Kolasin (follow-up audit).

The system of asset management, use and disposal in the country

The use, management and disposing with things and other goods belonging to Montenegro or a local self-government is regulated by the Law on state property. The owner of things being state property is Montenegro, and certain ownership authorization against things being state property which are used for performing the interests and functions of the municipalities executes the authorities of local self-government in accordance with the law and statute. The Government of Montenegro issues a prior consent with regard to the alienation of property rights on immovable belonging to the municipality.

The state property of Montenegro is managed by an administration authority competent for property affairs – Cadaster and state property Administration of Montenegro:

- keeps unified records and registry of the property;
- ensures the intended use of the state property;
- attends to the property which becomes the local self-government property ex lege;
- provides for affairs of entry into cadaster, allotment, delineation, exchange, preparation of draft contracts and monitoring implementation thereof, collection of rent and other affairs with regard to the state property and

- provides for condition for the protection of the property.

The property affairs for the municipalities are carried out by the body defined by the Statute of municipality.

The local self-government is obliged to keep records of movable and immovable things in line with the Law on state property, Decree on the manner of keeping records of movable and immovable things and taking inventory of things being in the state property and Instruction on detailed manner of keeping records of movable and immovable things being in the state property.

The administration authority competent for property affairs is obliged, in accordance with the international accounting standards and other regulations to submit the data on immovable and movable things being property of Montenegro to the Ministry until the end of March of the current year for the previous year.

Problems/shortcomings identified

Mistakes/shortcomings related to real estate accounting

The State audit institution identified in the audit reports certain irregularities in establishing and keeping records of the state property at the state authorities. Identified irregularities and shortcomings refer to the following:

- inadequate software solution for keeping records of the property,
- incomplete data on property,
- incorrect data in the existing records of the property,
- lack of keeping records of the property by the groups and accounts of classes,
- weaknesses in submitting data (reporting) on state property to the competent authority.

The conducted audits pointed out problems in establishing and keeping a single record of state property by the competent state authority. The Law on state property from 2009 stipulates the obligation for state authorities and public services established by Montenegro, i.e. local self-government authorities and public services established by local self-government to perform inventory, appraisal and recording of immovable things under their jurisdiction. Within one year from the entry into force of the Law, the data on property should be submitted to the state authority competent for property affairs, which was obliged to establish a single record of immovable things being state property within 90 days from the day of the submission of the data. Information from the fieldwork indicated problems in implementation of the Action Plan for establishment of a single record of state property.

Municipalities do not keep records of movable and immovable property on a modified basis in class 0 in accordance with the Rulebook on unified classification of accounts for the state budget, state funds and municipal budgets, so that the State audit institution cannot perform comparison of the value of the listed property to the bookkeeping state.

Irregularities/shortcomings related to compliance (of real estate) with the law

The State audit institution identified in the audit reports certain irregularities in taking inventory of the property:

- annual report on inventory do not contain state of receivables and liabilities, petty cash and inventory of the funds at giro accounts, which is not in accordance with the Instruction on

detailed manner of keeping records of movable and immovable things being in the state property;

- commissions for inventory of immovable and movable things submitted report on performed annual inventory with significant delay, in relation to given deadline determined in the decision on taking inventory;
- during nomination of the persons in the Commission for inventory, municipalities appointed persons dealing with the property affairs or responsible for property and keeping records of the property, which is not in line with the Law on management and internal controls in the public sector;
- listed property was presented at some municipalities in natural form (without purchase, written-off and current value) and did not calculate depreciation and revaluation which is not in line with the Instruction on detailed manner of keeping records of movable and immovable things being in the state property;
- appraisal of the immovable things being in some local self-governments is not performed so there are no data on the value of the fix assets for some facilities and land, which is not in line with the Law on state property;
- data on movable and immovable things are not submitted to the authority of local self-government competent for property affairs within the deadline determined by the Law on state property till the end of February of the current year for the previous year;
- data on movable and immovable things are not submitted in prescribed forms according to the Decree on the manner of keeping records of movable and immovable things and taking inventory of things being in the state property;
- municipalities, in certain cases have not, in line with the Law on state property established records of state property and submitted data on movable and immovable things to the state authority of administration competent for property affairs until the end of March of the current year for the previous year.

Other irregularities and shortcomings:

- The State audit institution also identified in the audit reports that municipalities perform sale of the construction land by means of a decision on the sale of construction land without a prior consent of the Government as prescribed by the Law on State Property. Some municipalities do not make a Decision on the annual fee for the use of space for illegal structures for the owners of illegal facilities registered on the orthophoto image for which no request for legalization has been submitted;
- When performing works for investment maintenance, municipalities do not appoint a person who supervises and receives works, while local communities do not submit reports on the use of funds allocated for project implementation on behalf of the Municipality's participation in road recovery through local communities. The State audit institution recommended to the municipalities to appoint a supervisory body during the execution of works that have the nature of investment maintenance, which will monitor the work, approve receipt of the performed works and submit a report on performed supervision.

Municipalities have not taken sufficient organizational, technical and personnel measures to establish adequate records of the state property they use and manage. On the other hand, it is necessary for the administrative body competent for property affairs - to create a single register of state property,

which also includes property of the local self-government and monitors data submission procedure and takes measures prescribed by law if they are not submitted.

Recommendations provided

In relation to afore-mentioned identified irregularities and deficiencies, the State audit institution gave recommendations to the municipalities which refer to, inter alia:

- keeping records and inventory in line with the Law on state property and applicable by-laws (Decree on the manner of keeping records of movable and immovable things and taking inventory of things being in the state property, Instruction on detailed manner of keeping records of movable and immovable things being in the state property and Rulebook on unified classification of accounts for the state budget, state funds and municipal budgets);
- submission of data on movable and immovable property to the authority competent for property affairs in the prescribed forms and within appropriate deadlines;
- establishing electronic records of fixed assets, keeping records of the property on a modified basis in class 0 in accordance with the Rulebook on unified classification of accounts for the state budget, state funds and municipal budgets and records of property by categories and groups.

Implementation of recommendations

The State audit institution carried out control of implementation of the recommendations in two follow-up audits of municipalities (Municipality Budva and Kolašin), as well as by regular evaluation of the status of recommendations given in the report of the audited entities on implementation of the audit recommendations (Berane). Most of municipalities submitted the Plan of the activities for implementation of SAI's recommendations, as well as Report on implementation of the Plan of the activities for implementation of SAI's recommendations given in the Final audit report of the municipality.

Through conducting follow up of implementation of audit recommendations, it has been identified that there are still certain irregularities and shortcomings in keeping record of property. Out of 10 recommendations which relate to municipal management of the property, 2 recommendations are implemented, 3 not implemented and 5 recommendations partially implemented. One municipality (Kolašin) implemented the recommendation related to the appointment of a person who supervises and receives works during the execution of works that have the nature of investment maintenance, as well as recommendation which refers to the obligation of the local communities to submit the reports on the use of funds allocated for project implementation on behalf of the Municipality's participation in road recovery through local communities.

Three non-implemented recommendations (Budva, Kolašin and Berane) relate to the obligation of establishing electronic records of movable and immovable property on a modified basis in class 0 and of submitting data on movable and immovable property to the municipal body competent for property affairs.

Due to adverse opinion and great number of irregularities, the State audit institution will conduct two follow-up audits of municipalities in the current year (Municipality, which is ongoing audit and Municipality Plav), as well as assessment of the status of recommendations from the reports of two municipalities on implementation of their recommendations (Danilovgrad and Andrijevisa).

Serbia – Državna revizorska institucija (DRI)

Leasing business premises owned by local self-government units (2019)

Type of the audit

Performance audit

Audited period

The audited period: 2016-2018. The audit report was published in 2019.

Audit scope and objectives

The audit covered the activities and competencies of all local self-government units in the Republic of Serbia, with special reference to the selected audit entities: the City of Belgrade, the City of Novi Sad and the City of Nis in the period 2016-2018.

The objective of the audit is to examine whether revenues from the lease of business premises can be increased by establishing comprehensive and up-to-date records, more efficient activities in the process of leasing business premises, strategic management and adequate control.

Local self-government units have at least 16 thousand units of office space (total area of 1.8 million m²) which represent a potential source of income from leasing.

Problems/shortcomings identified

Mistakes/shortcomings related to real estate accounting

The cities of Belgrade, Novi Sad and Nis have not established comprehensive records of business premises.

In the business books, a part of the business space is not recorded as a separate part, but buildings are recorded, and for that reason it is not possible to determine the book value for each individual unit of business space.

The City of Belgrade recorded 5,012 units of business premises in the business books, which differs from the number of units of business premises in the database of the application for calculation and collection of fees to tenants of business premises. According to the explanation of the responsible persons, due to technical reasons, it is not possible to compare these two records and determine possible discrepancies.

The City of Novi Sad recorded 988 buildings in the business books. According to the explanation of the responsible persons, the auxiliary book of fixed assets is kept only by the buildings, and not by special parts of the buildings (business premises).

The City of Nis recorded 269 units of business premises in the business books, which differs from the number of units of business premises in the database of tenants of business premises. According to the explanation of the responsible persons, the difference between the number of business premises exists due to the fact that the data presented in the business books refer to the business buildings, and not special parts of buildings (business premises), ie one part of the total area of the building is used for leasing.

Irregularities/shortcomings related to compliance (of real estate) with the law

The cities of Belgrade, Novi Sad and Nis did not submit data from the records on the condition, value and movement of funds in public ownership to the Republic Directorate for Property of the Republic of Serbia and did not fully register the right of public ownership for all business premises at their disposal and management.

The City of Belgrade has registered the right of public ownership on 750 special parts of buildings (business premises), which makes 12% of the total number of business premises, ie 22% of the total area of business premises available to the City;

The City of Novi Sad has registered the right of public ownership to 792 special parts of buildings (business premises), which makes 50% of the total number of business premises, ie 55% of the total area of business premises available to the City;

The City of Nis has registered the right of public ownership to 96 special parts of buildings (business premises), which makes 33% of the total number of business premises, ie 73% of the total area of business premises available to the City.

The Law on Amendments to the Law on Public Property extended the deadlines for registration of public property rights. The first deadline was October 2014, and according to the last amendments, it is December 31, 2020. Local self-government units, for objective and subjective reasons, did not conduct the procedure of registration of property rights on the real estate they use, so the deadline was extended.

The cities of Belgrade, Novi Sad and Nis have not regulated by internal acts the manner in which the business premises leased are planned and controlled. Based on the conducted physical inspection of the buildings in all three cities, for a certain number of units of business premises, we were not assured that there was a tenant on the location with whom the contract was concluded.

Problems/shortcomings related to the efficiency of real estate management

The cities of Belgrade, Novi Sad and Nis do not have a documented manner of estimating the initial amount of lease, which differs significantly between cities. The highest starting lease price in the City of Belgrade is 18 EUR/m², in the City of Novi Sad is 32 EUR/m² and in the City of Nis is 35 EUR/m².

Cities did not conduct proper marketing to achieve leasing at the best lease. Advertisements for leasing business premises were also published during holidays and vacations. In 78% of the total advertised units of business premises in 2018, there were no interested tenants. Based on the results of the survey, 77% of tenants of business premises in the cities of Belgrade, Novi Sad and Nis are not familiar with the available business premises that have not been leased.

The amount of receivables from tenants of business premises increased by 15% in the period 2016-2018 and on December 31 2018 it amounted to 70 million EUR. Cities have taken measures to collect lease receivables, but the expected effects of debt collection have not been achieved. The amount of receivables from tenants of business premises older than three years is 73% of the total amount of receivables. The Law of Contracts and Torts stipulates that the lease receivables, whether paid partially or in one total amount, expires in three years.

The cities of Belgrade, Novi Sad and Nis do not have a business premises management plan. The planning document for business premises management would determine long-term goals and guidelines for property management and disposal, taking into account economic and development interests of local self-government units.

Recommendations provided

After the audit "Leasing of business premises owned by local self-government units", the State Audit Institution of the Republic of Serbia gave the following recommendations to the cities of Belgrade, Novi Sad and Nis:

- To establish comprehensive records of business premises in order to enable obtaining comparable data on the number and area of business premises and take actions for registration of public property rights in the public book on real estate and rights for them;
- To apply appropriate marketing in order to display the business premises on the market in the most adequate way and achieve leasing at the best lease that can reasonably be achieved on the market in order to achieve the optimal level of income;
- Based on market research, to evaluate the initial amount of lease and analyse the existing criteria for classifying locations by zones and activities in order to lease business premises at the best lease;
- To establish an efficient system of internal control by adopting internal acts that would regulate the control of business premises leased.
- To take measures for more efficient collection of receivables, by monitoring the balance of debt, sending reminders and filing a lawsuit or some other action taken against the debtor in order to avoid the expiration of the deadlines;
- To adopt a business premises management plan which would determine long-term goals and guidelines for property management and disposal, taking into account economic and development interests of local self-government units.

Implementation of recommendations

The State Audit Institution reviewed the Response Reports submitted by the audited entities. We evaluated the implementation of the recommendations on the basis of the description of corrective measures and on the basis of the documentation submitted by the audited entities. We believe that we have obtained sufficient and appropriate evidence to express the opinion whether the corrective action is satisfactory.

In the process of evaluating the Response Reports, we assessed that the corrective measures described in the Response Reports submitted by the audited entities were satisfactory.

Spain – Tribunal de Cuentas

Two audit reports on buildings where no activity is being carried out and on public works at a standstill in the municipalities of the Region of Murcia and Castilla-La Mancha (2020)

Type of the audit

Performance audits with some characteristics of a financial audit.

Audited period

The audited period: from 1st January 2017 to 30th June 2019. The audit reports were approved in 2020.

Audit scope and objectives

The object of both audits is the economic and financial management carried out by the municipalities in relation to the municipal real estate owned by them in which either no activity was being carried out or they had works in progress that had been halted. In addition, the accounting of these buildings has been analysed.

These are horizontal audits, essentially performance audits, whose objectives are aimed at verifying the existence of unused buildings in municipalities, identifying their original intended use, their previous uses, the reasons why they were unused, the costs associated with their maintenance and the existence of plans for their use in the future, as well as assessing the existence of leased buildings for the development of the ordinary management of the institutions and the provision of services in relation to the existence of unused buildings owned by the municipalities. They have also been aimed at analysing the public works that have come to a standstill in each entity, identifying the causes that led to such standstills and their possible repercussions.

They also have the characteristics of a financial audit, insofar as the accounting situation of the entities in relation to these property and works has been verified.

The subjective scope is the municipalities with more than 5,000 inhabitants in the Region of Murcia and Castilla-La Mancha, i.e., 37 and 75 respectively.

The temporal scope runs from 1st January 2017 to 30th June 2019, without prejudice to checks and analyses relating to previous years which might be needed to adequately meet the intended objectives.

Based on the main results of the audits, the Reports contain the conclusions, structured in four sub-sections, relating to the inventory, as an instrument for the management and control of municipal assets, to the buildings in which no activity is being carried out, to the public works that are at a standstill and to compliance with the regulations on transparency.

Problems/shortcomings identified

Mistakes/shortcomings related to real estate accounting

71% of the municipalities in the Region of Murcia and 68% of those in Castilla-La Mancha, which own unused buildings, failed to register them in the accounts.

Irregularities/shortcomings related to compliance (of real estate) with the law

Conclusions regarding compliance with inventories rules

All municipalities failed to comply with some of the requirements of the national legislation regarding the date of approval, the rectification of their inventories or their content.

Conclusions regarding compliance with transparency rules

Of all the audited entities, five municipalities in Castilla-La Mancha did not have transparency websites and web portals to comply with the obligations of informing citizens established in the national legislation. In addition, 32% of the municipalities in the Region of Murcia and 44% of those in Castilla-La Mancha had not published on their transparency websites the list of the real estate owned by them.

Finally, the lists of properties published by the remaining 49 municipalities were outdated in most cases.

Problems/shortcomings related to the efficiency of real estate management

Conclusions regarding the inventory of municipalities' assets as an instrument for the management and control of municipal real estate assets

The inventories of municipalities' assets have not fulfilled their function as a fundamental instrument for the control and management of their assets, as most municipalities do not have an inventory or it is out of date and it does not contain all the required information.

Only 41% of the municipalities in both Autonomous Communities (Regional Governments) had inventories updated as of 1st January 2017. In the rest of the municipalities, the available inventories referred to earlier dates. The oldest ones were approved or updated in 2000 or earlier (24% of the municipalities in the Region of Murcia and 20% of those in Castilla-La Mancha) where, given their age and the absence of subsequent corrections or verifications, in practice they did not constitute an inventory that reflected the reality of their assets.

Conclusions concerning buildings in which no activity is carried out

The transfer of buildings to the municipalities' assets often took place without being part of projects in which the public needs to be met and the means to be used were duly determined.

29% of the properties that were unused in the municipalities of the Region of Murcia and 33% in those of Castilla-La Mancha had never been used. Likewise, the municipalities of Castilla-La Mancha were unable to determine when the activity of 35% of the buildings had been halted.

It is also highlighted that the municipalities that own most of the unused properties have not taken any measures and did not have plans or forecasts to put those properties into operation, dispose of them or modify their situation, and a large part of these properties had neither been registered in the land register or in the balance sheet of the municipalities.

In addition to the unused buildings, properties belonging to fourteen entities have been identified where their use was occasional and, in most cases, different from the envisaged use.

51% of the municipalities in the Region of Murcia and 43% of those in Castilla-La Mancha had properties leased from third parties for the development of their management or the provision of services. The total number of leased properties amounted to 145.

In none of the lease contracts did the municipalities carry out, in their preparatory stages, sufficient studies to analyse whether the available buildings could be used for these functions, nor were the possible costs of adapting them assessed, in relation to the price of the rents, in order to make the most efficient decision.

Conclusions regarding stalled public works

39 stalled public works were identified in the audited entities, 30 in the municipalities of the Region of Murcia and 9 in those of Castilla-La Mancha, of which 62% of the contracts for their construction were formalised before 31st December 2011. The resources invested and stalled amounted to more than 72 million euros, the origin of most of the stalemates being the lack of resources of the municipalities to continue with the execution of the works.

The average period of works stoppage was more than four and a half years in the municipalities of the Region of Murcia and more than seven and a half years in those of Castilla-La Mancha.

Of the 30 works at a standstill in the municipalities of the Region of Murcia, at the end of the audit work 37% of the works had been resumed and completed. For its part, of the 9 works stalled in the municipalities of Castilla-La Mancha, none of them had resumed.

Recommendations provided

Recommendations to municipal decision-makers are included, such as having up-to-date property inventories and computerised recording and control systems properly integrated with accounting systems, having procedures in place to control the registration status of properties, taking steps to bring unused properties into use or dispose of them, considering whether available properties could be used for the functions of those to be leased, and establishing protocols for the review of transparency portals to keep information available to citizens up to date.

Implementation of recommendations

The implementation of the recommendations has not been evaluated.



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Municipality Audit

