Remuneration of Management Board Members in public undertakings

Executive summary

The purpose of the audit carried out in accordance with the SAO working plan for 2003 was:

- to provide an overview of how the Members of Management Boards of public undertakings have been remunerated,
- to determine the basis used by Supervisory Boards to remunerate Management Board Members and the guidelines issued in this respect to the Members of Supervisory Boards by Ministers administering the holding.

The audit was conducted in companies where government interest was over 50 %. The audit analyses only those provisions of management board member's contracts (MBM contracts) and employment contracts pertaining to the remuneration of Management Board Members and the provision of other benefits comparable to remuneration. The reference material includes MBM contracts in force at the time when the audit began (September 8, 2003). All companies furnished contracts to the SAO.

Audited area in brief

There are 51 public undertakings (as of September 2003) and in 40 of them government interest is over 50 %. According to the Foundation of and Participation in Legal Persons in Private Law by the Government Act, the purpose of establishing public undertakings and holding an interest in such undertakings is to ensure better performance of government functions and the implementation of the national economic policy.

The Government appoints one Ministry to administer the shares owned by the government. The Minister who manages the Ministry administering the shares represents the government at the general meeting of shareholders. Government representatives in the company's Supervisory Board are government officials and/or other experts.

The Minister who manages the Ministry administering the shares owned by the government appoints one half of the representatives in the company's Supervisory Board and the Minister of Finance appoints the other half.

Government representative in the company's Supervisory Board is required to comply, in a manner enabling written reproduction, with the instructions of the official who appointed him or her, if this is not controversy with the company's interests, and to report to the said official about his or her activities as a Member of the Supervisory Board.

The Procedure for Performing Duties of Government Representative in Supervisory Boards of Companies and Foundations provides that the objective of the government representative in the performance of the functions of the Supervisory Board is to ensure the protection of the interests of the government as a shareholder of a specific company and the implementation of the national economic policy.

According to § 316 of the Commercial Code, the Supervisory Board plans the business of the public limited company, arranges its management and monitors the activities of the Management Board. The Supervisory Board discloses the results of such monitoring to the general meeting. Pursuant to § 309 of the Commercial Code, the Supervisory Board appoints and removes Members of the Management Board. A Member of the Management Board is appointed for a term of three years, unless the Articles of Association provide for a shorter term. The Supervisory Board may remove a Member of the Management Board regardless of the reason, whereby the rights and obligations arising from the contract concluded with that Member shall terminate pursuant to the contract.

A Member of the Management Board may receive remuneration corresponding to his or her tasks and to the economic situation of the public limited company, whereby the amount of and the procedure for payment of such remuneration shall be determined by a decision of the Supervisory Board (§ 314 of the Commercial Code).

Audit implementation

In order to determine whether Management Board Members have been remunerated in accordance with the applicable contracts, a sample was taken from companies for auditing purposes. The sample included public limited companies Eesti Energia, Tallinna Sadam, Eesti Viljasalv, Riigi Kinnisvara, Elektriraudtee, Eesti Post, Ringhäälingu Saatekeskus and Eesti Metsataim and the private limited company Eesti Keskkonnauuringute Keskus.

The auditors examined the contracts made with Management Board Members and the original accounting records, interviewed the Chairmen of the Supervisory Boards of companies included in the sample and sent enquiries to the Ministries.

The purpose of examining the contracts made with Management Board Members was to determine the constituent elements of the remuneration package of a Member of the Management Board.

The purpose of examining the original accounting records was to determine the types of remuneration paid to Management Board Members from January 1, 2002 to August 31, 2003 and the conformity of the that remuneration to the concluded contracts and the decisions adopted at the meetings of Supervisory Boards.

The interviews with the Chairmen of Supervisory Boards aimed to find out the basis of concluding MBM contracts and whether the Minister administering the holding has issued guidelines for remunerating Management Board Members.

The purpose of the enquiries was to determine the working arrangements of the Ministry of Economic Affairs and Communications, the Ministry of Finance and the Ministry of Environment as regards the issue of companies, and the availability of written guidelines of the Minister. The enquiries were sent to Ministries whose government areas encompass the largest number of companies.

SAO Audit Manager Ines Metsalu, Senior Auditor Margit Piller and Auditors Mari Rull and Krista Uuna conducted the audit.

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