# Overview of corruption prevention in public undertakings


## Summary

### What did we investigate and why is this important to taxpayers?

The state has holdings in tens of commercial undertakings and the manner in which they are governed affects the economy of Estonia and the lives of people. Many public undertakings use and manage valuable resources belonging to the state, such as oil shale and real estate. Public undertakings also provide services to people or perform other functions of strategic importance for the functioning of the state. They employ thousands of people and generate considerable revenue for the treasury.

Honest and transparent business is one of the preconditions of Estonia's development. Preventing corruption in public undertakings is important to the state, as it undermines the functioning of the free market and competition, reduces the reliability and profitability of the undertakings involved as well as their capability to perform their functions. Corruption in companies performing strategically important functions poses also a serious security risk.

In this overview, the National Audit Office analyses whether and how the state as the owner has given attention to the prevention of corruption in its undertakings and how the supervisory boards have acknowledged their role in corruption prevention. The National Audit Office also identified which anti-corruption measures have been adopted by public undertakings.  Altogether, the activities of 27 commercial undertakings fully owned by the state and the profit-making state agency State Forest Management Centre were analyzed.

### What did we find?

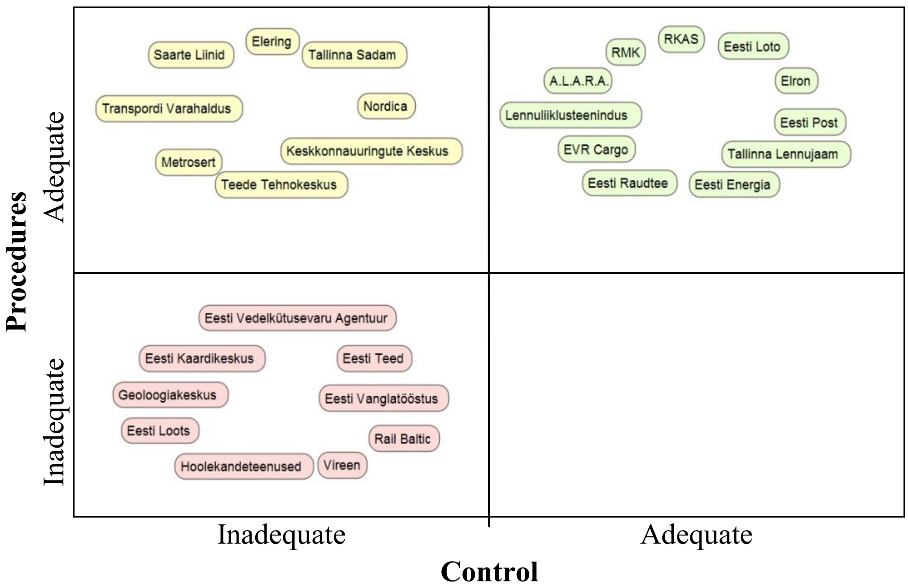
**More than a half of public undertakings do not have a systematic approach to corruption prevention. Above all, this indicates that the supervisory boards are not doing their work as required, because they have not adequately acknowledged the need to prevent corruption or their supervisory functions.**

- **The ministers who manage the shareholdings have not been equally demanding about the prevention of corruption in public undertakings, as no common understanding (policy) has been developed in the state about the measures to be taken in public undertakings for the prevention of corruption, and there is no agreement regarding who and how should be coordinating anti-corruption activities centrally.** Anti-corruption activities in public undertakings have not been systematic - instead, they have been relatively random and left to the ministries that manage shareholding and the commercial undertaking itself to furnish. The Ministry of Finance and Ministry of Economic Affairs and Communications has provided the public undertakings it manages with written guidelines for the prevention of corruption. The Ministry of Social Affairs, the Ministry of Justice, the Ministry of the Environment and the Ministry of Rural Affairs have not provided the undertakings they manage with written guidelines. One of the reasons is that the Ministry of Finance as the authority generally accountable for the state's holding policy has proceeded from the Anti-corruption Act, which stipulates that the Ministry of Justice is responsible for anti-corruption activities. The Ministry of Justice, however, focuses mainly on the prevention of corruption among officials and has given less attention to undertakings until the beginning of this year.

- **The managers of shareholdings (relevant ministries) have not used the anti-corruption measures at their disposal sufficiently, or they have not been implemented as planned.** The main levers that the managers of shareholdings can use for the prevention of corruption include the provision of anti-corruption guidelines to public undertakings; guaranteeing via the supervisory boards of the undertakings that the prevention of corruption is supervised; and requiring that the members of the management boards of undertakings submit declarations of interests. The Ministry of Finance and the Ministry of Economic Affairs and Communications have established guidelines for the prevention of corruption for the commercial undertakings they manage, but the other ministries that manage holdings have not done this. Less than half of the supervisory boards of public undertakings demand overviews of corruption risk assessments. The accuracy of declarations of interests is checked in approximately one-half of public undertakings.

- **Approximately 40% of public undertakings give enough attention to the prevention of corruption: they have established the relevant internal procedures and assess compliance with them.** 28% of public undertakings have established internal procedures, but there is no certainty that compliance with them is checked or that they are compiled with at all. Significant omissions in the prevention of corruption were found in 32% of public undertakings (see the graph below). However, the majority of public undertakings find that the implementation of anti-corruption measures is necessary.

Implementation of measures for the prevention of corruption in public undertakings*




* The legal names of the commercial undertakings have been shortened or adapted in order to make the figure more legible. See Annex E for the methodology used to prepare the figure.

Source: National Audit Office on the basis of the responses and materials presented by the commercial undertakings as at August 2016

- **Many supervisory boards of public undertakings have not acknowledged their functions and accountability in guaranteeing the development and implementation of anti-corruption measures.** According to good international management practice, the supervisory board is responsible for developing, implementing and monitoring of internal control, ethics and supervision measures, including those that target fraud and corruption. According to the information of public undertakings, a little over half of them have established principles for the prevention of corruption. A little over two-thirds of public undertakings have assessed corruption risks in the last three years. 70% of public undertakings have no code of conduct for the event a case of corruption is detected. The supervisory boards of one-third of public undertakings report to the manager of the shareholding about the implementation of anti-corruption measures.

- **The state as the owner has not established and public undertakings have not set themselves the goal of being a beacon of fair competition and corruption-free business in their**

**respective fields.** Public undertakings being free of corruption alone is not enough to support fair competition. It must be made sure that their important business partners also make their best effort to prevent corruption. The survey indicated that public undertakings usually give not attention to this and only three of 28 public undertakings have introduced the principles of their business ethics to their contractual partners. One-half of public undertakings have established rules for giving and accepting gifts.

### What do we want to emphasise?

- **The state as the owner must demand zero tolerance of corruption from its undertakings and require them to be beacons of fair competition and corruption-free business for other commercial undertakings.** It is necessary to implement the practice whereby public undertakings introduce their measures for the prevention of corruption to their business partners and request the same from them.

- **It must also be acknowledged that the supervisory board of a public undertaking should guarantee the development and implementation of anti-corruption measures.** When a case of corruption is detected, it should be investigated whether the supervisory board made every effort to prevent corruption.

- **The manager of the shareholding must make sure that anti-corruption measures have been developed and they are also implemented, i.e. the supervisory board has done its work with the expected diligence.** The manager of the shareholding must demand a detailed overview of the implementation of anti-corruption measures in public undertakings from their supervisory board and the Government of the Republic and the Ministry of Finance should receive the relevant overview as a part of the consolidated management report of public undertakings.