

DENMARK RESPONSE

INTOSAI WORKING GROUP ON THE AUDIT OF PRIVATISATION

THE ROLE OF THE STATE AS MINORITY SHAREHOLDER IN PRIVATE BUSINESSES

QUESTIONNAIRE

INTRODUCTION

The purpose of this questionnaire is to gather information from Members of the Group about the issues the state needs to address where it is a minority shareholder in private businesses, the challenges faced by the SAI in examining how the state addresses these responsibilities, and the impact of the SAI's work.

BACKGROUND

The topic 'The Role and Responsibility of the State as Minority Shareholder in Privatised Businesses' was discussed at the sixth meeting of the INTOSAI Working Group on the Audit of Privatisation (Warsaw, October 1999).

The discussion examined both the role of the state and key issues that SAIs are likely to have to address in examining how effectively that role is carried out. It was agreed that this subject merited further examination by the group.

Issues Affecting the State

- The state needs to protect the taxpayer's interests, even though it is not in control of the business.
- The state will have objectives in being a minority shareholder, and it needs to ensure these objectives can be met.
- The state may have taken special powers (e.g. a golden share). Such powers are however usually not general, but closely defined e.g. the right to approve changes in ownership of the business. As regards the general running of the business, such special powers are unlikely to afford the state any greater protection than that enjoyed by any other minority shareholder.
- Unlike a private minority shareholder, the state may not in practice be able to dispose of its investment if it is dissatisfied with the way the business is being run by those in control. For example, where the state's minority shareholding is retained for strategic economic reasons the state may be in double jeopardy: the actions of others could create additional obligations for the state, going beyond its original investments and the concept of limited liability, resulting in the moral hazard of implicit guarantees.

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- The state may not have access to sufficient market-focused skills necessary to understand the nature of the business, and the risks to which the state is exposed. And even if it is able to monitor the business's performance intelligently, it may not be able to influence those in control.
- Has the state been able, in practice, to protect its interests as a minority shareholder?

Issues Affecting the SAI

- The SAI is likely to be the auditor of the government body which holds the minority stake.
- Does the SAI also have audit access to the private business for the purpose of monitoring how the government body responsible for the state's shareholding is exercising its rights and responsibilities?
- If the SAI does not have audit access to the business, how can it effectively examine these arrangements?
- Does the SAI have access to the market-focussed skills necessary to check whether the state is doing all it can to protect the taxpayer's interests in relation to the minority shareholdings?
- Has the work of the SAI assisted the state in protecting the taxpayer's interests?

The questionnaire is divided into two parts

Part 1: The Role of the State

Part 2: The Role of the SAI

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Part 1: The Role of the State

General Information

1 Is the state a minority shareholder in any private business established in your country?

Yes (go to Q2)

No (no further responses necessary)

2 What proportion of your country's Gross Domestic Product (GDP) is represented by such businesses?

0 - 5 per cent

over 5 per cent

3 How are the state's minority shareholdings defined?

percentage of shares owned (all types of share)

percentage of voting rights owned

other (please detail below)

The state's minority shareholdings are not directly defined. However we have a definition of the state's majority shareholdings: The state has the majority shareholdings when the state has the same relation to the company as a parent company has to a daughter company.

4 In approximately how many companies does the state have minority shareholdings (including minority holdings which enjoy special status, e.g. with a 'golden share')?

22 companies.

5 Are the minority shares held in (tick all that apply):

stock exchange companies?

unquoted companies?

other e.g. partnerships (please detail below)

6 Does the state maintain a register listing the details of all the state holdings in privatised businesses?

Yes

No

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Any additional comments?

Every year The Ministry of Finance publishes a document to the Finance Committee about the state's shares.

Rights as a minority shareholder

7 What are the rights of a general minority shareholder under the laws of your country? (Tick all that apply, but do not include any rights which are specific to the state, as special state rights are addressed in subsequent questions.)

- powers to veto decisions (e.g. a 75% (or 2/3) majority may be needed to pass certain resolutions, so a minority shareholding greater than 25% (or 1/3) can be used to block these resolutions)
- any powers to require that the company should be wound-up (likely to need support from a majority of the shareholders e.g. 2/3)
- any powers to block a share redemption by the majority shareholder (such blockage might need only minority support e.g. 1/10)
- powers to request certain types of shareholder meeting
other (please detail below)

8 Does the state have the same rights for its minority shareholdings as those detailed in Question 7 above?

- Yes, it has the same rights (go to Q10)
- No, it has fewer rights (please detail below and go to Q10)
- No, it has more rights (please detail below and go to Q9)

Objectives of the minority shareholding(s)

10 Has the state become a minority shareholder as a part of a process of (tick all that apply):

- acquiring private sector businesses or shareholdings in them?
- privatising formerly state owned businesses?
- setting up joint ventures with private businesses?
- other (please detail below)?

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11 Has the state set any specific objectives with regard to its minority shareholdings e.g. to (tick all that apply):

protect the taxpayer's investments?

ensure the business is soundly run on a commercial basis?

pursue strategic economic goals?

promote growth in employment?

increase international investment?

obtain taxes and dividends from the efficiency of the private sector?

promote shareholding by the general public?

raise money for the state through the sale of shares?

other (please detail below)?

To secure the supply and to protect consumer interest.

12 Has the state sold any of its minority shareholdings?

Yes

No

13 Is the state likely to sell its remaining minority shareholdings?

Yes, all of them

Yes, some of them

No

Don't know

Responsibility for the minority shareholding(s)

14 Who is responsible for looking after the state's rights as minority shareholder?

government ministry

privatisation agency

other (please detail below)

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15 Does the responsible body (Q14) have representation on the Boards of the private companies?

Yes, on all

Yes, on some

No

16 Does this body have access to the expertise it needs to monitor the shareholdings and the achievement of the state's objectives?

Yes

No

Any additional comments?

The government ministry has the possibility to get the expertise it needs (if the ministry wants it)

17 Has the state introduced any measures in relation to its exposure as a minority shareholder, to reduce the moral hazard it faces (implicit guarantees or additional obligations for the state going beyond its original investment and the concept of limited liability) e.g. distancing the state by use of a holding company?

No

Yes (please detail below)

Competition Issues

18 Are there any indications that minority shareholdings by the state in privatised companies are distorting competition?

Yes (go to Q19)

No (go to Q20)

20 Has the state taken any measures to reduce the risk of such distortions of competition?

No

Yes (please detail below)

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Part 2: The Role of the SAI

This part of the questionnaire is in three sections:

Section A: the SAI's audit access to the government body which is responsible for the state's minority shareholding, and to the business in which the shares are held

Section B: the issues addressed by the SAI in examining the government body and/or the business

Section C: the outcome of the SAI's work

Section A - Audit Access

22 Is the shareholder (ministry, agency etc) audited or reviewed by the SAI as regards this shareholder role?

annually

occasionally

never

23 Does this audit access extend to an examination of the prices for state sales or acquisitions of minority shareholdings?

Yes (go to Q24)

No (go to Q26)

26 Does the SAI have audit access to any of the businesses in which the state is a minority shareholder?

Yes (go to Q27)

No (go to Q31)

31 Where the SAI does not have audit access rights to the private business, does the SAI nevertheless attempt to establish how far the state has been able to protect/promote its interests as minority shareholder?

No

Yes (please detail below)

This is a part of Rigsrevisionens review of the accounts which normally takes place every 3. year.

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Section B - Issues Addressed by the SAI

32 What areas does the SAI examine in relation to (a) how effectively the government body has discharged its responsibilities as a minority shareholder and (b) the operations of the business in which the shares are held?

(a) The government body responsible for the state's minority shareholding (tick all that apply)

action to protect the taxpayer's interests

achievement of objectives in relation to the shareholding

reasonableness of the state's investment return, measured by:

dividend yield

return on capital employed

the performance of similar companies?

other (please detail below)?

other (please detail below)

(b) The business (tick all that apply)

compliance with general company law and regulations

compliance with specific government regulations

compliance with relevant audit and accounting standards

achievement of the business plan

any conflicts of interest vis a vis the state

other (please detail below)

Section C - Outcome of the SAI's Work

33 Does the SAI's examination result in a report?

Yes

No

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34 To whom does the SAI report?

Government

Parliament

other (please specify)

The Public Accounts Committee

35 Is the report published?

Yes

No