



RIKSREVISIONEN  
*The Swedish National Audit Office*

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Kasernen Fastighetsaktiebolag, a state-owned  
property company

## Summary

*Riksrevisionen* (the Swedish National Audit Office, SNAO) has examined Kasernen Fastighetsaktiebolag, one of the smaller state-owned enterprises in terms of number of employees and turnover. The duty of Kasernen is to provide short-term housing (mainly) for employees of the Armed Forces. As regiments have been closed down and military demand for employer-supplied housing has thus fallen, Kasernen has sold a large number of buildings and shares in tenant-owners' associations (housing cooperatives) across Sweden. In all, it has sold 24 buildings and 22 shares in tenant-owners' associations for just over SEK 62 million. These sales have reduced Kasernen's total number of buildings and association shares by 90 per cent. The SNAO has examined 19 of the sales carried out by Kasernen between 2000 and 2006.

Government property representing a high value is managed by both government agencies and state-owned enterprises. When operations undergo organisational change, property is sometimes sold. It is important that the general public should feel confident that such sales are handled well. Sales should be performed in such a way that it is ensured, among other things, that the sale processes are correct and transparent. Additionally, the Riksdag (parliament) has stated that any sale of government property must safeguard the interests of the government in the best possible way.

### **Audit question**

The overall audit question is the following:

*Does Kasernen Fastighetsaktiebolag perform operations in line with the decisions and intentions of the Riksdag and the Government?*

One key aspect of the SNAO's assessment relates to Kasernen's sales of buildings and shares in tenant-owners' associations.

### **Internal management**

Kasernen conducts its business operations on premises owned by a company controlled by Kasernen's Managing Director; that company also conducts its operations on the same premises. The Managing Director's company owns, among other things, 15 commercial buildings. Besides Kasernen, another six companies – of which four are active – have their registered office at the same address. Kasernen's Managing Director has various types of engagements in those companies. Kasernen pays 50 per cent of the common costs of the office premises. This allocation of costs has not changed since 1994 even

though the volume of Kasernen's operations has been considerably reduced since that time. The SNAO finds that the allocation of common costs should be reviewed in the light of Kasernen's shrinking operational volume.

The SNAO also notes that Kasernen's office lease is based on an agreement included in its Managing Director's employment contract rather than on a regular lease agreement with the legal entity that owns the building, i.e. the Managing Director's company. The SNAO finds that it is inappropriate for an office lease to be governed by an employment contract.

The audit shows that no documented overview of the Managing Director's incidental employment has been compiled on any occasion, even though he is active in a number of companies in the property sector. The SNAO considers that the incidental employment of senior officials should be documented in order to reduce the risk of unclarity and conflicts of interest.

Kasernen's Board of Directors is authorised to sign for the company. The Board has also given the Managing Director and the Chairman of the Board separate authority to sign for the company. This means that each of the Managing Director and the Chairman can represent the company in the same way as the full Board of Directors. However, this does not free the Board from full responsibility for the company's operations, for example as regards the property sales. The SNAO finds that, given the modalities of the separate authority to sign for the company, it can be questioned whether the Board of Directors has had adequate insight into and control over all parts of the management of the company. This is particularly interesting given that the company has sold 90 per cent of its buildings and shares in tenant-owners' associations.

The audit shows that there are shortcomings in Kasernen's administrative procedures. For example, there is no complete register of the company's fixed assets, which has made it more difficult to track changes in its property holdings.

## **Sales of buildings and shares in tenant-owners' associations**

The SNAO deems it important that government property should be well managed and that any sale of such property should safeguard the government's interests in the best possible way. It is also important to conduct sales in such a way that it is possible to retrace the procedure afterwards.

The SNAO considers that Kasernen's sales of its buildings and shares in tenant-owners' associations have not been satisfactorily implemented throughout.

The SNAO has found that Kasernen lacks a documented description of how sales should be implemented. Such a description is an important tool to help the Board of Directors control and monitor sales made by the company.

The SNAO has also found that the company has not satisfactorily documented its sales in the cases examined. This relates, for example, to valuations by independent valuation companies and to tender procedures. The lack of a description of the sale process is part of the reason why the

Board of Directors had inadequate insight into the sales made by Kasernen as well as a poor basis for the associated decisions.

The SNAO further finds that, in most of the cases examined, the sales price was below the estimated market value and average price. What is more, the sales price in several cases was below the taxable value (which is roughly supposed to correspond to 75 per cent of the market value) and below the acquisition price.

It is important that sales of public property should be handled on the basis of market considerations and in such a way as to prevent suspicion that the government's interests have not been safeguarded. One way of ensuring this is to use independent valuers and open tendering. Kasernen's failure to use a documented tendering procedure when selling buildings and shares in tenant-owners' associations may have prevented potential buyers from bidding on them.

## **Inadequate control and direction**

The Board of Directors of a limited-liability company must act in the best interest of the company. The Board must also ensure that it has good insight into the operations of the company and that there is a satisfactory level of internal control and management. The SNAO finds that the Board of Kasernen has failed to fulfil its duties in these respects.

The Government is expected to monitor the company and obtain information about its development to ensure that it is managed in the best possible way. The SNAO finds that the Government has failed to ensure that Kasernen was managed in such a way as to safeguard the interests of the central government.

Further, the SNAO also considers that it can be questioned whether the objects of Kasernen's operations as specified in its Articles of Association provide adequate grounds for the sale of property. The objects make no reference to the sale of property by Kasernen. Since the wording is detailed, it can be construed as exhaustive.

The SNAO considers that it is important to adapt the objects of a company before its operations are given a new orientation. Neither the Government, in its capacity as owner-manager, nor the Board of Directors has taken any measures with a view to adapting Kasernen's Articles of Association to its new orientation, which has entailed the sale of most of its buildings and shares in tenant-owners' associations.

When the orientation of a company's operations changes, its financial objectives also need to be reviewed. Those of Kasernen, however, are unchanged. Partly as a result of this, the company has accumulated considerable equity.

## **The SNAO's recommendations**

The starting point of the SNAO's recommendations is that it is the duty of the Board of Directors and top management to ensure that the company is well managed within the framework defined by legislation.

At the same time, the Government is expected to monitor the company and its development in an active manner. It is important that the Government, in its capacity as owner-manager, should determine modalities for the actions of the Board by specifying, through dialogue, guidelines and reporting requirements that will ensure compliance with the requirements imposed on the company by the Riksdag. However, the Board's ability to perform its duties under the Companies Act must not be restricted in any way.

In its capacity as owner-manager, the Government should:

- ensure that the Board of Directors of Kasernen actively assumes responsibility for the best interests of the company;
- adapt the objects of Kasernen's operations to include the sale of buildings and shares in tenant-owners' associations;
- review the financial objectives of Kasernen in the light of the present circumstances;
- draw up guidelines relating to the incidental employment of top officials of state-owned enterprises.