Conclusions and recommendations of the National Audit Office

State-owned companies of strategic interest – risk management and ensuring business continuity

The main target organization of the audit was the Ownership Steering Department of the Prime Minister's Office, which is responsible for the ownership steering of most companies of strategic interest. The Department is responsible for the strategic interests of the companies and prepares them in cooperation with different line ministries. The audit was also targeted at these ministries: the Ministry of Transport and Communications, the Ministry of Agriculture and Forestry, the Ministry of Defence, and the Ministry of Economic Affairs and Employment. In addition, the audit was targeted at the ownership steering function of the Ministry of Finance. In addition to central government officials, the chairs of the boards of directors of strategic-interest companies were interviewed in the audit for their views on the functioning of the ownership steering.

The audit assessed whether the Ownership Steering Department of the Prime Minister's Office, which is responsible for the ownership steering of state-owned companies of strategic interest, and the Ministry of Finance have ensured that these companies' risk management has been organized in accordance with the Government Resolution on State-Ownership Policy. The Government defines the key principles of ownership policy in the Government Programme. The Government Resolution on State-Ownership Policy, in turn, provides more detailed strategic guidelines and describes the operating practices of ownership steering.

It was also assessed whether the Ownership Steering Department and the line ministries (the Ministry of Transport and Communications, the Ministry of Agriculture and Forestry, the Ministry of Defence, and the Ministry of Economic Affairs and Employment) have safeguarded the strategic interest of the companies and the business continuity this requires.

In state-owned companies of strategic interest, the state ownership is based not only on investor interest but also on strategic interest. The latter may relate to, for example, national defence, security of supply, maintenance of infrastructure, or the obligation to provide needed basic services. It is very important that the risk management of these companies is in order and that their business continuity is safeguarded because their products and services can be central or critical to the functioning of society as a whole.

The Ownership Steering Department has ensured the existence of risk management processes in the companies and analyses risks but does not take a direct stand on the companies’ risk level or risk-taking capacity, or the effectiveness of their risk management

The Ownership Steering Department strives to ensure by a variety of means that it is adequately informed of the company's situation and compliance with the resolution. These means include, for example, financial audit reports and auditors' findings, discussions with the chair of the board of directors and the management, the department's representative on the board, an overview of the company's risks and risk management presented at the general meeting, and financial company analyses.

Financial company analyses and ownership-strategic reports analyse the company's risks and opportunities from the owner's perspective. The owner does not participate in the company's risk management process but discusses risks with the company and assesses the company's risk level in relation to the company's financial capacity.

The board and its composition have a significant impact on the company's risk management, but ownership-strategic work and communication with the chair of the board are partly non-transparent steering instruments

The board of directors is responsible for organising the company's risk management. The selection of members to the board is a means of ownership steering to influence the operations of the company. The composition of the board can be considered an important indirect risk management tool, by which the owner can influence the company's risk management policy and try to ensure the effectiveness of the company's risk management. An additional tool in the formation of an effective board composition could be a shareholders’ nomination committee. The committee would also include the chair of the board in unlisted companies with several owners where the right to nominate the board has not been specified in the shareholder agreement. In addition, when shareholder agreements are updated, a nomination committee could be introduced or the participation of the chair of the board could be further strengthened as part of the Ownership Steering Department's current board selection process.

The ownership-strategic work is largely based on confidential communication between the official responsible for the strategy and the company’s chair of the board and management, and the detailed content of this communication is not available. As the work is based on discussions, it is difficult to determine its effects as well as the influence that the different actors have on different issues.

The resolution is clear as regards the company's responsibility for risk management and for keeping the owner informed, but the risk of threat to strategic interests should be expressed in more concrete terms

The Ownership Steering Department requires that the companies organize their risk management duly in view of their needs, as provided in the Limited Liability Companies Act.

The resolution highlights the responsibility of the company's board and management to bring relevant matters to the owner's attention. The cooperation between the Ownership Steering Department and the company as well as the matters to be monitored and discussed are based on analyses by the Department but also largely on mutual trust that relevant issues will be brought to the attention of the parties concerned.

The National Audit Office finds that it would be good if the resolution specified in more concrete terms when the state's strategic interests may be at risk. This would ensure that the raising of the matter is not based solely on the general guidelines for the disclosure of relevant matters. This would also clarify in more concrete terms when a measure planned by a company is such that the company, the Ownership Steering Department and, where appropriate, the line ministry should jointly assess the impact of the measure on the management and continuity of the strategic interest. In practice, this would mean stating in the resolution, as was stated previously, that the state's strategic interests should not be risked by the state owner's own measures (sales of shares and structural arrangements) or by decisions taken by the company's administrative bodies (acquisitions, restructuring, revision of the strategy, significant expansion of international operations).

Defining a company's strategic interest may require the input of several line ministries, and the views of ministries may also be needed during the government term

A company's strategic interest is usually defined or, if necessary, updated in between government terms. The line ministry draws up a proposal with justifications for the company's strategic interest and discusses it with the Ownership Steering Department. Strategic interests are finally decided in the Ministerial Committee on Economic Policy, where the matter is presented by the Ownership Steering Department.

Only the line ministry to whose administrative sector the company belongs participates in defining the strategic interest. Other ministries do not participate in the definition of the strategic interest, even though these ministries may have a strong ownership-strategic interest in part of the company's operations. The National Audit Office finds that in such cases, the Ownership Steering Department should hear several ministries and take their views into account in the definition of the company's strategic interest and its justifications and, if necessary, modify the company-specific definition of strategic interest.

In the 2020 resolution, the responsibility for strategic interests was transferred from the line ministry to the Ownership Steering Department, and only the preparation is carried out in cooperation with different ministries. The National Audit Office finds that the monitoring of the implementation of the strategic interest and any potential risk to it should be the responsibility of the Ownership Steering Department and, where possible and necessary, also of the line ministries.

The National Audit Office finds that the risk to the strategic interest should be specified in concrete terms together with the line ministries when the strategic interest is defined. This would strengthen the identification and consideration of the strategic interest in the ownership steering and in the work of the companies' boards.

In companies of strategic interest, the realization of risks may have a greater impact on the state and society than loss of invested capital

Generally speaking, the focus of the Ownership Steering Department is on the company's financial success: a profitable company can also take care of its strategic interests. The focus of the line ministry is on the continuity of the implementation of the strategic interest and on the societal role of the company: in all its business operations, the company must ensure that the strategic interest is not at risk. These focus areas are not mutually exclusive and do not mean that the Ownership Steering Department does not take into account the company's strategic interest or that the line ministries do not understand the significance of the financial conditions for the companies' ability to provide services and produce goods.

The legal form of a limited liability company is, per se, part of risk management from the owner's perspective, and the upper limit of the owner's risk is the capital invested in the company. In companies of strategic interest, the issue is not so straightforward. A traditional owner's risk can expand into the state's societal risk. If the implementation of strategic interests is considered essential or even vital for the state and society, it is almost impossible for the state to allow such a company to go bankrupt or, at least, to terminate or unexpectedly alter its activities related to the strategic interest. The companies of strategic interest differ from each other regarding to what extent the strategic interest forms part of their activities. In a large proportion of the companies, the implementation of the strategic interest covers all or almost all of the business and in some companies a large part of the business, whereas in some companies its share is more limited.

In the case of the energy company Fortum, the state ultimately had to guarantee and provide bridge financing through Solidium Oy, a company wholly owned by the state, and to rescue the company (state as financier of last resort).

The boundary between the company's own risk management and the state's own risk management is vague

The risk management responsibility of the companies' boards focuses primarily on safeguarding the companies' operations and managing the company's internal risks. As the Ownership Steering Department does not actively take part in the risk management, the management of risks caused to society by the companies' activities or inactivity is not specifically assigned to any actor.

Although the state is, in practice, committed to maintaining the companies of strategic interest or their operations, it has not pre-defined related risk management tools in its own risk management. According to the central government's general risk management principles, the ministries' risk management shall also cover the risks that may be caused to the ministries by the agencies, off-budget state funds, unincorporated state enterprises and state-owned companies it steers.

The most important risks related to the strategic interests of the companies in terms of the functioning of society should be identified and assessed separately, for example as part of the management of risks related to central government finances and government-level state administration. The group of strategic-interest companies is diverse in terms of size and industry, and the strategic interests of all companies are not equally critical to the state and society.

No need for the state's own risk management guidelines for state-owned companies – however, topical enquiries, overviews at general meetings on risks, risk management and the key findings of financial audits, and sometimes also further instructions continue to be needed

The general meeting guidelines issued annually by the Ownership Steering Department have in recent years underlined the importance of comprehensive and up-to-date risk management. As from autumn 2021, the guidelines have explicitly stated that, in addition to presenting the financial audit report, the auditor is expected to present an overview of key audit findings, which can be considered to include any findings related to material shortcomings in risk management. In the guidelines of autumn 2022, the companies were also asked to present at the general meeting an overview of the company's risks and risk management as part of the discussion about the financial statements. In addition, the Ownership Steering Department has by topical enquiries requested information from a particular company or group of companies on the effects of the threat and realization of significant international risks on the company's business. The National Audit Office finds that the aforementioned means and methods provide the ownership steering unit with a better picture of the company's risks and risk management, while also stressing the importance of risk management to the companies.

The strategic-interest companies controlled by the Ministry of Finance are Fingrid Oyj and Gasgrid Finland Oy. In accordance with the guidelines of the Ministerial Committee on Economic Policy, the ownership steering function of the Ministry of Finance issued guidelines to Fingrid in January 2023. In these guidelines, the Ministry of Finance took a position on the risk management of the electricity balancing market and on the risk management tools to be used in the event of a liquidity crisis affecting the securities of the balance responsible parties.

As regards risk management and the bearing and sharing of risks between a company and its shareholders, the guidelines stated, for example, that in the role of the system operator, the company should take into account the overall interest of a functioning electricity market; that in certain circumstances the company may take a higher economic risk than in normal business; that the company has the possibility of setting a ceiling on the securities required from the balance responsible parties; that, when necessary, the company should start discussions with the owners on extra funding for the company and, if any one of the owners does not participate in the extra funding, its shareholding should be diluted accordingly.

The National Audit Office finds that in significant and problematic risk situations, it may be necessary for the state owner to intervene by guidelines in the company's financing and risk management in greater detail and in a more binding manner.

Recommendations of the National Audit Office

1. The Ownership Steering Department takes into account, where appropriate, the views of several line ministries when determining or updating a company's strategic interest.
2. The Ownership Steering Department organizes the division of tasks related to monitoring the implementation of companies’ strategic interest and any potential risk to it in such a manner that, where necessary and possible, the line ministries, and the Ministry of Finance in the case of the two companies steered by it, participate in it in addition to the Ownership Steering Department.
3. The Ownership Steering Department specifies in the resolution in more concrete terms (by giving a list of examples as in the 2011 resolution) when the state's strategic interests may be at risk. This is to ensure that the raising

of a matter is not based solely on the general guidelines on the disclosure of relevant matters.

4. The Prime Minister's Office identifies, in a ministry's risk management policy, the significant societal risks arising from the threat to the business continuity of state-owned companies steered by the Ownership Steering Department, defines the risk owners, and takes the risks into account in government-level risk management.
5. The Ownership Steering Department assesses whether it is possible and useful, at specified intervals, to include in the companies’ financial analyses an analysis of the level of the company's risk management system without that the responsibility for the organization and effectiveness of risk management is blurred.
6. The state does not draw up its own risk management guidelines for state-owned companies, but the ownership steering continues to apply and further develops means for obtaining and providing additional information on risks and their management. These means include, for example, topical enquires to companies, overviews presented by the company at the annual meeting on risks and risk management, information provided by the auditor at the annual meeting on key audit findings, and the provision of delimited guidelines on specific issues related to risk management and financing.