

PRESS RELEASE

December 2016

Report to the Flemish Parliament

Good governance at PMV

The Court of Audit has examined whether the governance of the Participatiemaatschappij Vlaanderen (PMV) meets the requirements of good governance. PMV is a structurally complex investment company, which is responsible for the management of significant public funds. The Court has determined that the Flemish Government and PMV have already made some efforts to attain good governance, but more measures are still needed. The Flemish Government, for example, fulfils its role as owner insufficiently and does not clearly distinguish between its different roles as owner, client, policy maker and market regulator. Furthermore, the independence and competence of the various governing bodies are insufficiently guaranteed and those bodies only partly fulfil their assigned tasks. Finally, PMV lacks adequate internal control and transparency regarding its operations.

Examination by the Court of Audit

PMV is a government-owned investment company that is expected by the Flemish Government to establish sustainable economic development in Flanders through the use of financial instruments, such as capital participation, loans and guarantees. Given the multitude of its activities, PMV has also established subsidiary companies, which renders it structurally complicated. The Flemish Government opted for a public limited company configuration (PLC), headed by a board of directors, and is the only shareholder. A group management committee is tasked with the daily governance. Due to its governance structure, its specific responsibilities and the significant budgets it manages, PMV is confronted with specific challenges regarding good governance. Yesterday the Court of Audit has provided the Flemish Parliament with the results of its examination of the good governance of PMV. It weighed the Flemish Government's fulfilment of its role as owner, the composition and operation of the managing bodies (board of directors, audit committee, appointment and remuneration committee and group management committee), the internal control, the risk management, the management of and the transparency towards the stakeholders.

Aspects of good governance

The Court of Audit determined that PMV is currently engaged in improving certain aspects of good governance. For example, it has established a corporate governance charter and an audit charter and has taken the (first) steps towards optimizing certain support processes and its governance structure. Furthermore PMV pays attention to the decision-making procedures and risk management of its financial core process. However, several other aspects have been found wanting.

Fulfilment of shareholdership

The Flemish Government insufficiently uses its role as owner or shareholder to provide PMV with clear expectations. It has failed to establish a centralised service that manages certain aspects of governance. PMV receives its directions mainly from its various contractors, based on the instruments or assignments involved, without the supervisory minister or an administrative body playing a central part in this. This results in an increase in the responsibilities of PMV and a lacking distinction between the different roles of the Flemish Government as PMV shareholder, client, policy maker and market regulator. The Flemish Government has not clearly outlined its expectations with regards to the PMV and had insufficiently clarified its choice of the PLC-configuration. Such company configurations assume a certain distance between shareholder and company, but that is not always the case for PMV and it is also not clear whether that is a position the Flemish Government wants to assume.

Regulation of PMV governance

The requirements regarding good governance are in part set in decrees, but some provisions have not yet been specified. The Flemish Government's implementation of the provisions set in decrees, and its supervision and assessment thereof are as of yet wanting. Also absent is a coordinating instance. For PMV specifically, it first and foremost lacks clear selection procedures, competence profiles or inventories of the required knowledge and capabilities for the members of the board of directors, the audit committee and the appointment and remuneration committee. The reasons for their appointments are unclear and the independence of these governing bodies is therefore insufficiently guaranteed. Moreover, evaluations of individual members of the governing bodies do not take place. The fact that the different governing bodies generally only partially fulfil their governing role is a major point of attention for PMV. For example, the board of directors is mainly engaged in the approval of investment files and financial documents, but fails to completely fulfil its general strategic role, its responsibilities in outlining the HR and communication strategy and its supervisory role. The audit committee is mainly engaged in financial reporting and pays too little attention to its responsibilities regarding internal control, risk management and internal audit. The appointment and remuneration committee, in turn, is not at all involved in the appointment of the members of the board of directors and does not – or only partially – fulfil other responsibilities as well.

Internal control, risk management and management of stakeholders

The lack of clear objectives hampers PMV in establishing an internal control and risk management system. PMV has made progress with regards to internal control for IT and HR and is currently engaged in further developing the risk management for its core 'financial' procedures. However, the Flemish Government and PMV as parent company inadequately supervise the good governance of the subsidiary companies. PMV does remain in regular contact with its stakeholders, but those are not comprehensively identified and PMV's processing of their input is not sufficiently structured.

Transparency

Despite its role as owner, the Flemish Government itself does not provide reports on the implementation of policies by PMV or other investment companies, even though the guidelines of the OECD state that it is expected to do so. Finally, PMV itself has also shown insufficient transparency on its operations and activities and does not comply with certain regulatory obligations regarding communication (e.g. information about the salaries of those charged with governance and the management). In any case, the Flemish Parliament – in its capacity as stakeholder – receives too little information.

Response of the minister

In his response, the minister has conveyed that the new management agreement, which is to be signed between PMV and the Flemish Region in the Spring of 2017, will include clear strategic objectives and will be structured more clearly.

Information for the press

The Court of Audit exerts an external control on the financial operations of the Federal State, the Communities, the Regions and the provinces. It contributes to improving public governance by transmitting to the parliamentary assemblies, to the managers and to the audited services any useful and reliable information resulting from a contradictory examination. As a collateral body of the Parliament, the Court performs its missions independently of the authorities it controls.

The audit report on *Good Governance at PMV* has been sent to the Flemish Parliament. The full version and this press release can be found on the Court's website:

www.courtofaudit.be.