NATIONAL AUDIT
OFFICE OF LITHUANIA
• BRINGING BENEFITS •

ASSESSMENT OF REGULARITY OF 2017 SETS OF THE STATE CONSOLIDATED FINANCIAL AND BUDGET EXECUTION STATEMENTS AND LEGALITY OF MANAGEMENT, USE AND DISPOSAL OF BUDGET FUNDS AND PROPERTY

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SUMMARY

The goals and scope of the audit

Having regard to Article 134 of the Constitution of the Republic of Lithuania, Statute of the Seimas of the Republic of Lithuania, the Law on National Audit Office, the Law on the Accountability of the Public Sector, and the Law on the Budget Structure, we have carried out an audit on the state consolidated statements for 2017 and assessed the legality of the management, use, and disposal of state budget funds and property in the year 2017 with regards to the areas selected for audit.

The audit was carried out in accordance with the Public Auditing Requirements, International Auditing Standards, and the International Standards of Supreme Audit Institutions. The audit report contains only the findings of the audit itself, while the independent opinion on the state consolidated financial and budget execution statements are provided in the audit conclusion. A more detailed description of the scope and methodology of the audit is provided in Annex No. 1 “The Scope and Methodology of the Audit” (p. 47).

Main results of the audit

The state consolidated financial statements

1. The number of entities responsible for drawing up financial statements should be lower

As noted before by the National Audit Office, the optimisation of the accounting procedures of the public sector, to be achieved by reducing the number of public sector entities and centralising the accounting functions, could contribute to the receipt of reliable and objective information from financial statements.

While the efforts of the Government to reduce the number of bodies related to the executive authority system and to optimise the internal procedures (i.e., to consolidate general functions), performed as part of ongoing reform, could be regarded as progress, we are of the opinion that the number of entities responsible for drawing up financial statements, which, in the public sector, currently hovers around 3,500, should be reduced even further (Sub-Section 1.1).

2. The state consolidated financial statements contain material misstatements

Even though, in 2017, data on state property has been updated, due to distortions in entity accounting which have been discovered during previous audits, yet still haven't been corrected, the state consolidated financial statements are still not reflective of the real value of the state-owned property, obligations, income, and costs.

A significant portion of state taxes (97.4 percent) and other income related to core operations (4.2 percent), as well as amounts both receivable (18.9 percent) and payable (27.1 percent), is unreliable due to shortcomings in the Tax Accounting Information System of the State Tax Inspectorate. Works related to their improvement have been scheduled for completion by the end of 2018.

Data on the value (13.8 billion Euro) of 795,000 ha of vacant state-owned land managed by the right of trust, which was disclosed by the National Land Service on 31-12-2017, is still inaccurate. Not all of the land included in the state financial statements belongs to the state – there is also a number of plots, the transfer of the ownership of which to natural persons has not been formalised, yet they have been paid for with investment vouchers in the past and are currently used by natural persons. The National Land Service has already commenced the collection of data on sales and purchase agreements for land which have not been drawn up, as well as the clarification of the respective data contained in financial statements, which should be completed by the end of 2018.

The balance of movable cultural property fails to reveal their actual value, because, in accounting logs, much of the property displayed in museums (2.3 million units) is still being recorded not at its actual value, but at the symbolic value of one Euro. By the end of 2017, only 35 percent of all museum property (1.1 million units) was recorded at its actual value. The Ministry of Culture is in control of the assessment procedure with regards to the property accounted for at symbolic value, which should be performed by 2020 (Sub-Section 1.2).

3. Court income is not being accounted for

We have determined that courts are failing to include stamp duty and economic operations related to income generated from penalties they have imposed into their accounts, as well as to disclose information on the preceding in their financial statements, which is the reason why their financial statements, and therefore also the state consolidated financial statements, are not reflective of the actual situation with regards to income and the receivable and payable amounts related thereto. According to the data of the State Tax Inspectorate for 2017, the state budget received 7.4 million Euro in stamp duty, 4.8 million Euro in court-imposed penalties, and 1.3 million Euro in amounts recovered in accordance with executive documents. The above amounts indicate only the fact of how much has been received, yet since these amounts are not being registered in accounting documents, the total of amounts assigned or awarded is unknown.

Even though the Ministry of Finance, tasked with the general methodological oversight of accounting, has been furnishing the National Courts Administration, responsible for performing respective organisational, as well as general operational, court functions, with explanations regarding the accounting of court income since 2013, the situation with regards to the accounting of stamp duty and court-imposed penalties remains unchanged. The protracted and ineffective process of addressing the issue is indicative of systemic shortcomings in public sector accounting, which limits the reliability of the financial statements. The importance of compliance with the income accounting requirements in court is down to more than just the potential of receiving more accurate and reliable data provided in financial statements – this could also provide the conditions for obtaining monitoring-critical information and using it as an additional measure for the assessment of the effectiveness of the collection of amounts awarded to the state (Sub-Section 1.2).

4. The failure to account for economic operations or their improper accounting

We have determined that the audited entities did not always choose the proper methods of accounting (1 out of 40 entities), failed to register economic operations without delay (10 out of 40 entities), failed to take inventory, or took inventory of only a part of all property and obligations, and the balance of inventoried long-term and current property did not correspond to accounting records (18 out of 40 entities), failed to properly account for their property (11 out of 40 entities), and made other individual accounting mistakes (11 out of 40 entities) (Sub-Section 1.2).

State budget execution statements

5. While the budget execution statements are free of material misstatements, the problem related to the inaccurate disclosure of revenue by type remains unchanged

Even though we have not determined any significant mistakes in the state budget execution statements for 2017, the problem related to the inaccurate disclosure of revenue by type remains to be solved. Data on the collection of key taxes – the value-added, personal income, excise, and income – could change by up to 0.2 percent (Sub-Section 1.3).

Budgetary governance

6. We welcome the Government's determination to reform the strategic planning and budgeting system

A reform of the strategic planning and budgeting system is currently under way. The first positive changes related to said reform have been noticed in the draft budget for 2018. As part of implementing the transitional measures, the Government has also updated the Strategic Planning Methodology, and the Rules for the Planning, Update, Use, Accounting, and Control of State Funds Allocated to State Capital Investment. The development of the new strategic planning system is scheduled for completion by the IV quarter of 2020, and the medium-term budget should be developed in full scope by 2021-2023. The ongoing transformation of the investment planning system should be completed prior to the development of the budget for 2021-2023.

Issues related to budgetary governance were also analysed in 2018, finding that the maturity of budgetary governance in Lithuania has not yet progressed beyond the first maturity level (more information on this has been provided in the budgetary governance maturity assessment carried out by the National Audit Office).

Since the balance of the general government is planned (corrected) via the state budget, any changes to the State Social Insurance and Compulsory Health Insurance Fund Development and Implementation Policy would impact the development of the state budget. As we have noted before, even though the state, by way of legislation, assumes essentially uninsured obligations in the areas of social and health care policy, it fails to ensure their proper funding using state resources, and they are instead covered from the Social Insurance or Compulsory Health Insurance funds. This leads to reasonable doubt over the decisions taken with regards to the use of fund resources (more information on this has been provided in the reports of public audit on said funds for 2017). The Ministry of Social Security and Labour has undertaken to monitor the legal regulation of the Law on the Fundamentals of the State Social Security System, which has not been amended for the past 16 years, and, considering the results, take a decision regarding the improvement of its legal regulation by 2018. The fact that, having regard to the comments submitted by the National Audit Office, the Employment Fund has been eliminated, and that the active labour market policy measures have been set to be funded from the state budget shall be deemed progress in the process of purifying the principles of state social insurance. The Ministry of Health has undertaken to cooperate with competent institutions to review legal regulation and develop appropriate draft legislation by the end of 2019 (Section 2).

The management, use, and disposal of state budget funds and property

7. No systemic irregularities have been found in the audited bodies

This year, the legality of the use of budget funds, as well as the management, use, and disposal of property, was assessed at the Ministry of the Interior, the Ministry of Agriculture and the bodies under the control of these Ministries, the Constitutional Court of the Republic of Lithuania, the National Courts Administration, and selected regional and district courts, all of which have been selected on the basis of risk analysis.

In summary, we conclude that irregularities determined in the aforesaid bodies were neither pervasive , nor systemic, but rather isolated and characteristic of specific bodies based on the special nature of their operations. Reorganisation ongoing in the respective bodies did not have any negative impact on the legality of the management of their funds or property. The following groups of irregularities may be isolated based on their nature:

- the procurement of property without giving due consideration to the sufficiency of already available ones (1 out of 15 bodies in the area of the Ministry of the Interior);
- the implementation of, and the provision of information on, procurement in violation of legislation (3 out of 15 bodies in the area of the Ministry of the Interior, and 1 out of 7 bodies in the area of the Ministry of Agriculture);
- the failure to request the imposition of penalties on providers which fail to perform their obligations (1 out of 15 bodies in the area of the Ministry of the Interior, and 1 out of 7 bodies in the area of the Ministry of Agriculture);
- the provision of advance payment not required under contracts, and the settlement with providers prior to ascertaining that goods have been delivered and services rendered (2 out of 15 bodies in the area of the Ministry of the Interior, and 3 out of 7 bodies in the area of the Ministry of Agriculture);
- the improper calculation and payment of salaries and wages (3 out of 7 bodies in the area of the Ministry of Agriculture);
- the assumption of debt obligations under financial leasing (lease), or equivalent, contracts, even though such is prohibited by the law (13 out of 64 bodies in the area of the Ministry of the Interior, and 1 out of 7 bodies in the area of the Ministry of Agriculture);
- granting third parties the right to use property absent any legal grounds for such, and the failure to ensure that recipients of transferred property use it in accordance with the conditions set out in legislation and contracts (5 out of 15 bodies in the area of the Ministry of the Interior);
- the use of property intended for the functions of bodies to perform incompatible activities, or activities uncharacteristic of the public sector (4 out of 15 bodies in the area of the Ministry of the Interior);
- the management and use of state informational resources which have not been legalised (1 out of 7 bodies in the area of the Ministry of Agriculture).

We have also determined a number of shortcomings in the process of the distribution of resources from the Physical Culture and Sports Fund. We have determined a number of instances whereby 142,000 Euro from said fund were allocated to sports-related projects in violation of set requirements. Furthermore, the legislation regulating the allocation of the aforesaid fund should be amended.

The Chamber of Agriculture is funded in accordance with historical tradition, and the law which regulates it fails to indicate any specific function, the performance of which requires the allocation of funds from the state budget. We are not certain that the 364,000 Euro allocated from the state budget for the measure “Strengthening the Self-Governance of Farmers”, implemented by the Chamber of Agriculture, are being used purposefully and in a way that generates any tangible benefit. Assessing whether the self-governance of farmers was actually strengthened is not possible, because the Ministry of Agriculture had failed to pay enough attention to controlling the activities of the Chamber of Agriculture, namely – the Ministry did not select appropriate criteria for assessing the outcomes of said measures, and did not analyse information submitted for the purposes of accountability. Given the lack of a procedure for disaggregating expenditure by activity in place at the Chamber, we were not able to ascertain whether funds received from the state budget were used only to cover the expenses related to said measure.

We have provided the audited entities with recommendations, the implementation of which comprised efforts to terminate illegitimate transactions regarding the transfer of property, determine the cases of the illegitimate and irrational use of funds, and the organisation and implementation of public procurement, determine the shortcomings related to the control of the implementation of contracts, terminate activities unrelated to the functions of institutions, and consider the possibility of amending legal regulation (Section 3).

Recommendations

To the National Courts Administration

1. Establish measures to ensure the accounting of stamp duty and court-imposed penalties in courts in accordance with all the requirements specified in the Public Sector Accounting and Financial Accountability Standards (Main Audit Result No. 3).

To the Government of the Republic of Lithuania:

2. Amend/improve defective provisions regulating the funding of sports-related projects (implementing institution – the Ministry of Education and Science) and examine the circumstances regarding the allocation of funds to applicants which fail to meet the requirements applicable to them (implementing institution – the Department of Physical Education and Sports) (Main Audit Result No. 7).

To the Ministry of Agriculture

3. Consider and assess the specific goals and expected outcomes of the measure “Strengthening the Self-Governance of Farmers”, implemented using funds from the state budget. In case the decision is made to continue the implementation of said measure, set an appropriate criterion for its assessment, and determine which specific functions/activities should be assigned to the Chamber of Agriculture (Main Audit Result No. 7).

The summary only contains recommendations which require systemic solutions or the improvement of regulation. During the present audit, entities were provided with 44 recommendations in writing, and 33 recommendations were provided orally. The list of written recommendations provided in the report which have not been implemented by the end of audit, as well as the means and terms for their implementation are provided in the section “Recommendation Implementation Plan” of the report (p. 42).