NATIONAL AUDIT
OFFICE OF LITHUANIA
• BRINGING BENEFITS •

ASSESSMENT OF DATA OF 2017 SET OF NATIONAL FINANCIAL STATEMENTS AND PUBLIC DEBT AND ITS MANAGEMENT

01 October 2018

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SUMMARY

The goals and scope of the audit

Having regard to the Law on National Audit Office and[1] the Law on the Accountability of the Public Sector[2], we have carried out an audit on the national financial statements for 2017, as well as data on public debt and the assessment of its management.

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 national financial statements is provided in the audit conclusion. A description of the scope and methodology of the audit is provided in Annex No. 1 "The Scope and Methodology of the Audit" (p. 28).

Main results of the audit

1. The financial statements contain material misstatements of the data

This is the sixth set of national financial statements for 2017 which fairness we have assessed and with regards to which we provide our qualified opinion. The present set does not yet reveal the correct value of state property, obligations, and income, because

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[1] Clause 5 of Article 9(3) of the Law on National Audit Office.
[2] Clause 5 of Article 30(2) of the Law on the Accountability of the Public Sector.

the accounting of entities contains material misstatements with have arisen due to unsolved accounting issues.

A significant portion of state taxes (78.5 percent) and other income[3] (6.2 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. The State Tax Inspectorate plans to complete the ongoing improvement of said system by the end of 2018.

Not all of the land included in the state financial statements belongs to the state, as there is also a number of plots, the transfer of the ownership of which to natural persons has not been formalised. The National Land Service plans to make the necessary accounting corrections with regards to the value of vacant state land by the end of 2018.

The balance of movable cultural property is lower and fails to reveal its actual value, because the process of valuing movable cultural property displayed in museums, which has been valued at symbolic prices, at its actual price, and the revision of its value in museum collection funds, has not yet been completed. A significant part of museum property (2.3 million units) is still accounted for at an incorrect value. The Ministry of Culture plans to complete the process of reassessing properties valued at symbolic prices by 2020.

Municipal statements on the balance of infrastructure and other structures is lower and fails to reveal their actual value, because not all of the roads and streets of local value have been included there, and 24,100 units have not been valued at their actual price.

The 2017 financial statements of the State Social Insurance Fund contain material misstatements, and their outcomes provided in the budget execution and financial statements differ by as much as two-fold[4], even though the accounting principles used for drawing them up are the same.

In order to obtain reliable and objective data provided in financial statements, and to reduce the determined scope of misstatements present in the financial statements of public sector entities, we have, during a previous audit, recommended the Ministry of Finance to develop a methodology/recommendations which describe how entities should perform reviews of their operations, property, and obligations, and assess whether said factors are reflected in their financial statements. The Ministry had planned to implement the recommendation by 30-09-2018, yet failed to deliver on its promise. Furthermore, the Ministry of Finance could establish its role as the developer of financial accountability policy and fully implement the functions which have been assigned to it by the Government, namely – the development and approval of all the forms, as well as the contents of, the financial statements and budget execution statements of public sector entities.

2. Statement data is still incomplete, and the terms of their submission is still uncoordinated

Data provided in the national financial statements, which have been developed on the basis of accrual, should be widely used not only for the purposes of performance accountability, economic decision-making, and estimating medium-term budgets, but also as alternative sources of data, which would allow Statistics Lithuania to assess the

[3] Income received from fees and rendered services.

[4] The budget execution statements specify a net surplus of 106.7 million Euro, while the financial statements indicate a deficit of 91.3 million Euro.

accuracy of data on general government debt or balance which has been calculated and scheduled for submission to the Eurostat. Since the currently available national financial statements fail to encompass all of the necessary entities and their data, which could be used to determine the actual state of public finance, the sample of entities consolidated into the statements should include all entities for whom the state is held liable.

The Government reports on its performance each spring by submitting performance statements without data on the state of public finance, that is – without – annual statements. These statements are submitted to the Seimas in the fall, which is the time when considerations of the following year's budget typically commence. Such uncoordinated reporting on funds which have been spent during the year, as well as on performance, is not useful for managerial decision-making (Sub-Section 1.2).

3. Reporting on public debt did not significantly change, while the need for funds in financial resource management has increased

During last year's audit we have concluded that the increased balance of free public resources and the complex investment environment, given negative interest, had complicated the management of said resources – in 2016, expenses related to the holding of funds were higher than in 2015. For this reason, we have recommended the Ministry of Finance to optimise the balance of public resources in state treasury accounts, implement different investment strategies in a more flexible manner, and systemically assess alternatives to borrowing instruments. The implementation of recommendations has been delayed, and the situation did not change in 2017: fund balance was large, sometimes reaching 3 billion Euro, while expenses related to their holding increased – in 2017 they were twice as large as in 2016, reaching 5.8 billion Euro.

No less important is the settlement of public debt and its management, which did not change much in 2017, remaining oriented towards facts, rather than analysis of the reasons, potential consequences and new directions. We would like to note that the 2018 Stability Programme, which contains borrowing and debt management tasks for the new period of 2018-2021, lacks important information on external factors which impact financial markets, changes in debt management risk indicators, and issues related to the management of debt. Moreover, after transferring the borrowing and debt management policy into the Stability Programme, the Ministry of Finance was no longer accountable to the Government for the performance of borrowing and debt management tasks. We are of the opinion that it is important to not only develop and have information regarding actual borrowing and debt management data, but to also perform its assessment, thereby revealing the reasons and impacts of changes. Only complete information is useful for managerial decision-making (Sub-Sections 2.1 and 2.2).

4. Given the current pace, fiscal reserve is not likely to be accumulated by 2021

The Lithuanian Stability Programme for 2018 identifies the accumulation of a fiscal reserve as a key medium-term goal for public finance policy. The surplus of subsector budgets attributed to general government will be accumulated in three different funds. By the end of 2021, a fiscal reserve of 2 percent of the GDP is expected to have accumulated for the purposes of ensuring national stability. By the end of 2017, the reserve (stabilisation) fund contained only 163 million Euro (0.4 percent of the GDP). The fiscal reserve of the Compulsory Health Insurance Fund comprises an insignificant part –

only 26.5 million Euro, while the Social Insurance Reserve Fund did not accumulate any funds in 2017 at all. For this reason, we feel justified in doubting whether the goal of accumulating fiscal reserves by 2021 will be achieved (Sub-Section 2.3).

Recommendations

To the Ministry of Finance

1. In order to make the data provided in the national financial statements usable for planning budgets, calculating fiscal and economic indicators, as well as for other goals, extend the scope of the currently consolidated entities of the public sector to include general government (Main Audit Result No. 2).

2. In order to enable the Government to furnish the Seimas with consolidated and performance statements at the same time, coordinate the respective terms of reporting (Main Audit Result No. 2).

3. In order to make statements of all the national funds clear and easy to compare, and to enable the Ministry of Finance to implement its role as the developer of financial accountability policy, amend legislation such that the responsibility for developing the forms and contents of financial statements and budget execution statements is borne by the Ministry of Finance, regardless of the fact that the area of management the relevant fund falls under does not belong to said Ministry (Main Audit Result No. 1).

The measures and terms for the implementation of recommendations are provided in section "Recommendation Implementation Plan" of the report (p. 26).

We would like to note that the Ministry of Finance still hasn't implemented the recommendations of previous audits. We are of the opinion that said recommendations are important and that the timely implementation of specified measures would have a positive impact on the effectiveness of the management of accounting, debt, and public funds (Main Audit Result No. 1 and No. 3).

1. In order to obtain reliable and objective information on the financial state of the public sector, which is appropriate for decision-making at the relevant levels of management, and to ensure greater transparency of public finance, initiate the inspection (inventory) of the activities performed by public sector entities and the related property and obligations – determine and eliminate the key shortcomings related to the initial recognition of, and accounting for, property and obligations, as well as the process of accounting and financial reporting.

2. In order to optimise the balance of public funds in treasury accounts, implement measures designed to improve the estimation of the flows of said funds, as well as promote and encourage the responsibility of entities which provide data used for developing the aforesaid estimates.

3. In order to improve the management of public funds, apply different investment strategies in a more flexible manner, thereby ensuring the implementation of all the public fund management principles and their interoperability.

4. In order to avoid the duplication and non-submission of data, as well as other potential mistakes with regards to calculating the scope of public debt, cooperate with other institutions which are taking part in this process (namely – Statistics Lithuania and the Bank of Lithuania) in assessing the sources of data on the debt of general government, specified in legislation, as well as the extent to which they are used in practice, and potential data source alternatives, and set a clear and consistent sequence for their use in calculating the debt of general government.

5. Develop methodological recommendations and/or amend legislation so that public debt would include all obligations which are attributable to debt obligations in terms of not only form, but also of content.

6. In order to successfully react to changes in the financial market and to make budgetary savings, update the process of the systematic assessment of available debt instruments and the alternatives thereof, as well as related decision-making.