NATIONAL AUDIT
OFFICE OF LITHUANIA
• BRINGING BENEFITS •

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

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SUMMARY

The goals and scope of the audit

Having regard to the Law on National Audit Office[1] and the Law on the Accountability of the Public Sector[2], we have carried out an audit on the assessment of the regularity of the financial and budget execution statements for 2017, and the legality of the management, use, and disposal of the funds and property of the State Social Insurance Fund in 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 consolidated financial and budget execution statements is provided in the audit conclusion. A more detailed description of the scope and

[1] Clause 4 of Article 9(1) of the Law on National Audit Office.

[2] Article 30 of the Law on the Accountability of the Public Sector.

methodology of the audit is provided in Annex No. 1, The Scope and Methodology of the Audit (p. 21).

Main results of the audit

1. The financial and budget execution statements of the SSIF contain material misstatements

The outcomes provided in the 2017 financial and budget execution statements of the State Social Insurance Fund differ by nearly two-fold – from 106.7 million Euro in profit in the budget execution statements to 91.3 million Euro in deficit in the financial statements, even though the accounting principles used for drawing them up are the same. The budget execution statements were drawn up in violation of the accounting requirements because a part of the data was provided from somewhere other than accounting registers. The result accrued by the SSIF, yet not based on accounting data, that was specified in the budget execution statements (3,359.4 million Euro in deficit) is 8 million Euro less than the result indicated in the financial statements (3,367.4 million Euro in deficit) which have been drawn up in accordance with the same principle of accrual (Sub-Section 1.1).

The financial and budget execution statements of the SSIF have been drawn up in violation of the principle of the subject indicated in the Law on Public Sector, because they contain, inter alia, information on other funds (LEPF, GF, CHIF) which, or whose payments, are administered by the fund board. For this reason, said statements are uninformative, i.e., they fail to disclose the data of the SSIF (Sub-Section 1.1).

2. The accounting system of the SSIF fails to provide sufficient information for making important decisions

The current accounting system of the SSIF must be restructured so that it would be appropriate for drawing up financial statements and making important decisions, and does not mislead users. Drawing up two sets of statements based on the same accounting principles is not a useful practice. Users should be provided with a single set of statements drawn up in accordance with the principle of accrual, which contain all the important data on the implementation of the fund budget.

The SSIF fails to account for the accrual of different types of insurance. The Law on Approval of the Budget Indicators of the State Social Insurance Fund approves not only the general payment rates, but also their amounts which are applicable to different types of social insurance. Given the above, it is important to not only know the accrued results of the current year, but also to assess them in accordance with different types of insurance. This accounting information was always necessary for making appropriate budget planning decisions and has become especially relevant after the decision to accrue a social insurance reserve fund and to index pensions (Sub-Section 1.2).

3. Institutions responsible for the administration of the State Social Insurance Fund must join the institutional optimisation process conducted by the Government

The break down of institutions responsible for the administration of the SSIF into separate legal entities is causing unnecessary administrative expenses which do not generate any added value. The statement consolidation process is attended by the SSIF board and 12 of its subordinate administrative institutions, which draw up a total of 38 sets of financial and budget execution statements, which unnecessarily encumbers the SSIF and the Ministry of Finance in drawing up and consolidating statements of the lowest level. If the SSIF board joins the institutional optimisation initiatives specified in the Government Programme, the SSIF could be administered, in the entire territory of Lithuania, by a single SSIF authority which, having optimised the accounting process, could draw up a single set of statements (Sub-Section 1.3).

4. The state social insurance system has not yet been clarified

During previous audits, we have noted the tendency of the state to undertake obligations in the area of social policy by way of legislation, but fail to ensure the proper funding from the state budget, which are therefore funded by the SSIF. Pension insurance funds are being used for issuing the following payments which have the characteristics of social assistance: survivors', service, and disability pensions, compensations for specific working conditions, and payments to persons who have taken care of the funerals of deceased pensioners. The Ministry of Social Security and Labour has undertaken to complete, by 2018, the monitoring of the legal regulation of the Law on Fundamentals of the State Social Security System, which has not been amended for the past 16 years, and, depending on the results, make a decision regarding the improvement of legal regulation and define the principles of the types of state social insurance, as well as the scope of application, in order to separate state social insurance from social assistance. (Sub-Section 2.1).

5. The accrual of the SSI reserve fund has not yet commenced

At the start of the economic crisis in 2008, the State Social Insurance reserve fund did not have enough accrued resources which were imperative for the paying of pensions and other social insurance payments. The budget of the SSIF has grown. The adopted laws implementing the social model specify the development of a State Social Insurance reserve fund which would function as an aid instrument in the even of another economic crisis. The accrual of the aforesaid fund was estimated to being in 2017, yet the fund remains empty (Sub-Section 2.2).

6. Legal provisions regarding the administration of the other funds of the SSIF have not been coordinated

The board of the SSIF administers the CHI contributions, as well as both the contributions and payments of the GF and LEPF, for which it receives compensation of the operational costs of the SSIF. The provisions of laws, and the implementing legislation, regarding the calculation and use of the aforesaid funds are unjustifiably inconsistent, which causes difficulties in their application and explanation, and complicates the execution of said funds' budgets. We have notified[3] the Ministry of Social Security and Labour, the Ministry of Health, and the Ministry of Finance of the uncoordinated legal provisions and recommended their coordination during the development of the budget of 2019 and of subsequent years.

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[3] Letter No. S-(6-5032)-689 "Regarding Determined Matters" of the National Audit Office 17-08-2018.

Recommendations

To the Ministry of Social Security and Labour

1. In order to ensure the provision of reliable financial information to users, optimise the process of accounting and the drawing up of statements: relinquish the practice of drawing up two sets of statements based on the same principle of accrual, instead providing all of the important fund execution data in a single set of statements (Main Audit Result No. 2).

2. In order to optimise the operation of the fund and to simply the management structure thereof, merge the 13 currently operational fund administration authorities into a single legal entity (Main Audit Result No. 3).

To the State Social Insurance Fund board

3. Implement such accounting methods/procedures as are necessary to ensure that the accrued result is provided in accordance with the different types of social insurance (having regard to the fact that the law approves not only the general payment rates, but also the amounts thereof which apply to different types of social insurance) (Main Audit Result No. 2).

4. Review and clarify the methods of the accounting of depreciation chosen by the SSIF in order to ensure that the evaluation of the depreciation of sums receivable are performed in accordance with appropriate and justified premises.

5. Review and clarify the accounting organisation process of the SSIF, such that the data on the SSIF, CHIF, GF, and LEPF is provided in financial statements in accordance with the principle of the subject specified in the Law on the Accountability of the Public Sector (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. 19).