



NATIONAL AUDIT  
OFFICE OF LITHUANIA  
• BRINGING BENEFITS •

# ASSESSMENT OF 2019 SET OF NATIONAL FINANCIAL STATEMENTS AND DATA OF PUBLIC DEBT AND ITS MANAGEMENT

1 October 2020

No. FAE-9

## SUMMARY

### The Objective and Scope of the Audit

Pursuant to the Law on National Audit Office<sup>1</sup> and the Law on Public Sector Accountability<sup>2</sup> we have conducted the audit of the assessment of the 2019 national set of financial statements, data of public debt, and its management..

The audit has been performed in accordance with the Public Auditing Requirements, International Auditing Standards, and International Standards of Supreme Audit Institutions. The audit report includes only the matters performed and identified during the audit, and independent opinion on the national set of financial statements is presented in the audit conclusion. The scope and methods of the audit are described in greater detail in Annex 2, Audit Scope and Methods (p. 28).

### Key Results of the Audit:

#### 1. The financial statements contain material misstatements of data

We are issuing a qualified opinion on the national financial statements for 2019. It does not yet reflect the fair value of assets owned by our State and liabilities, and income as there are material errors in the accounts of the entities, most of which are recurrent over a number of years:

---

<sup>1</sup> Law on National Audit Office, Article 9, para 3, point 5

<sup>2</sup> Law on Public Sector Accountability, Article 30 para 2, point 5

- a significant part of tax revenue (98%) cannot be confirmed due to weaknesses in tax accounting;
- institutions subject to the supervision of the Ministry of Culture have valued 40% of their movable cultural (museum) property at the symbolic value of one euro rather than at their fair value.
- biological assets and cultural property, economic operations and economic events related to public-private partnership agreements, roads of local importance, and streets are improperly accounted for in municipalities: they are not yet inventoried, are not legally registered, are accounted for at the symbolic value. For these reasons, the balance of fixed assets is lower and does not show a fair value.

To ensure reliable and objective data in the set and to reduce the extent of misstatements identified in the financial statements of public sector entities, having conducted the audit based on the data of 2016, we recommended the Ministry of Finance to develop methodology/recommendations on how entities should review their activities, assets, and liabilities and assess whether all assets and liabilities are accurately reflected in their financial statements, and to correct errors. The Ministry proposed that heads of public legal persons perform risk assessment of the activities carried out, identify risk factors that may have a negative impact on the items in their financial statements, carry out a review and take measures. This measure had to reduce the extent of misstatements found in the entities' financial statements: as a result we should have a fairer national set of financial statements. However, the measure was ineffective and did not have a positive impact on the correctness of the financial statements.

Due to incorrect data and misstatements made by public sector entities during consolidation procedures, in the 2019 set of statements:

- financial fixed assets were overstated by EUR 41,229 thousand ;
- short-term assets were reduced by EUR 538,165.2 thousand ;
- the balance of funding amounts from the European Union, foreign countries, and international organisations has been reduced by EUR 434,330 ;
- long-term financial liabilities were overstated by EUR 30,743.4 thous. ;

Having carried out the audit based on the data of 2018, taking into account the extent of errors due to incorrectly eliminated mutual operations, we recommended to the Ministry of Finance to review the process of consolidation of financial statements, the functionality of the information system used for that purpose and the scope of consolidation information accumulated in it (transferable annually), and to provide for measures for the improvement of the consolidation process. Implementation of the recommendation is expected by the first quarter of 2021 (pp. 9–16).

## 2. Formalistic approach to debt management

In 2019, the public debt amounted to EUR 17.5 billion. In recent years, the economy has been growing, however debt has not decreased. Only the debt to GDP ratio has decreased, i.e. debt grew at a slower pace than GDP. At the end of 2019, this ratio accounted for 36.2%. During 2019, the debt in nominal value grew by EUR 872.5 million. By the end of 2019, the financial reserve accumulated in the country, covering the Reserve (Stabilisation) Fund,

the reserves of the State Social Insurance Fund, the Compulsory Health Insurance Fund, the balances of the Guarantee Fund and Long-term Employee Benefits Fund amounted to EUR 979 million and was EUR 84.4 million lower than expected for the approval of the 2019 budgets. The situation in 2020 showed that the reserves accumulated until 2019 amounted to EUR 979 million, as in 2020 the State Treasury already borrowed EUR 6,646 million. This means that after the end of the economic downturn caused by the pandemic, reserves will have to be restored in an even more difficult situation – while at the same time trying to repay the public debt to the pre-COVID-19 crisis, as planned in Lithuania's Stability Programme 2020.

The criterion for measuring debt sustainability in Lithuania is the general government debt to GDP ratio. This criterion, set in the legal acts of Lithuania and the EU, is common to the EU Member States, regardless of the size, openness and other circumstances of their economy, however, no assessment of the level of debt sustainable for the general government finances of Lithuania has been carried out. It should be noted that the Lithuanian fiscal institution, like the Organisation for Economic Cooperation and Development, emphasises the need for an optimal definition of debt levels and the accumulation of fiscal reserves: not for the first year, it is invited to decide on the size of the minimum fiscal reserve for Lithuania and/or the amount of cyclical income for debt reduction. The Ministry of Finance informed about the plans to carry out an analysis of the level of government debt that would be appropriate in the long term to maintain the sustainability of government finances in the long term, taking into account demographic developments and other factors, but, due to the need to allocate human resources elsewhere in response to the COVID-19 pandemic crisis, this work will not be completed in 2020.

The medium-term debt management policy is presented in the annually updated Lithuania's Stability Programme, which sets the goal of debt management, objectives to achieve that goal, criteria for the implementation of the objectives. During the audit, we found that two out of three criteria for the implementation of the objectives did not reflect the expected result. Lithuania's Stability Programme was updated on 30 April 2020. It sets the same borrowing and debt management goals, objectives, and criteria for their implementation as in the 2019 Programme, although already during its drafting, it was known that debt would increase significantly in 2020 (Sub-section 2.1, pp. 17–23).

### 3. Public debt settlement to be improved

The Stability Programme is updated annually, setting the goal and objectives for debt management for the next medium-term. However, what has been achieved in the course of the year is only partially disclosed. We identify weaknesses in the settlement of debt management for years.

Part of the data on the state (state-supported loans referred to in the Law on Higher Education and Research) and municipal obligations under guarantees do not reflect compliance with the statutory guarantee limits for the current year, as only the balance of guaranteed loans is indicated and not the amount of the commitments taken under guarantees signed, although the amount of the commitments under the guarantees does not decrease until the loan agreement (amount of the loan, interest and/or other obligations under the loan agreement) is completed. We found that part of municipalities report liabilities in statements of debt liabilities under guarantee agreements at nominal value, some – balance of guaranteed loans, one municipality presents the amount of

liabilities under the loan agreement assumed by controlled companies in excess of the guarantee amount (the guarantee was not signed for the full loan amount). We note that the Seimas sets not only the requirements for guarantees but also the amounts payable to municipalities, nevertheless, the information on the implementation of these indicators is not submitted to the Seimas. 34 municipalities did not comply with the indicator of not increasing the amounts payable set by the Seimas.

To formulate expectations for municipalities (to prepare a clear form) and obtain correct data from them is particularly important as the data of the statements are used both for the control of compliance with the balances set in the Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for a specific year and as a source of information for the calculation of the general government debt. In order to avoid duplication of data, failure to submit data, and other possible errors, during previous audits, we made recommendations to the Ministry of Finance to assess the sources of general government debt data specified in legal acts, the scope of their use in practice, possible alternatives to data sources, and to establish a clear and consistent sequence of their use when calculating the general government debt. We also recommended to draft methodological recommendations and/or amending legislation in order to include in the public debt all liabilities which, in their form and content, are attributable to debts. Recommendations made in 2016 have not yet been implemented (Sub-section 2.2, pp. 24–26).