NATIONAL AUDIT
OFFICE OF LITHUANIA
• BRINGING BENEFITS •

ASSESSMENT OF REGULARITY OF 2019 SETS OF CONSOLIDATED FINANCIAL AND BUDGET EXECUTION REPORTS AND LEGALITY OF MANAGEMENT, USE AND DISPOSAL OF FUNDS AND PROPERTY OF THE STATE SOCIAL INSURANCE FUND

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No. FAE-8

SUMMARY

The Objective and Scope of the Audit

Pursuant to the Law on National Audit Office, and the Law on Public Sector Accountability, we have conducted the audit of the assessment of regularity of 2019 sets of consolidated financial and budget execution reports and legality of management, use and disposal of funds and property of the State Social Insurance Fund.

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 sets of consolidated state financial and budget implementation reports are expressed in the audit opinion. The scope of the audit and the applied methods are described in more detail in Annex 2 “The Scope and Methods of the Audit” (pp. 24–26).

Key Results of the Audit:

1. The 2019 sets of budget execution and financial reports contain material misstatements

The sets of consolidated financial and budget execution reports of the State Social Insurance Fund are not in all cases compiled in accordance with the provisions of public sector accounting standards and other legal acts regulating accounting and accountability:

- the results of the Fund's reports, drawn up on the basis of the same accrual principle, should not differ, however they differ by EUR 41.4 million;
- the result of the Fund was increased by EUR 0.1 million due to the lack of timely assessment of the decisions, which increases the Fund's costs.

The recommendation made during the previous audit to improve the compilation of the reporting sets was planned to be implemented by 30/06/2020. The necessary draft amendments to laws, which provide that the sets of financial reports of new quality will be compiled for 2023 are under consideration in the Seimas of the Republic of Lithuania (Sub-section 1.1, pp. 11–13).

2. The actual implementation rate of the Fund's income plan is 2.4% lower

The Fund's reports indicate that its income collection plan was exceeded by 2.8%, however the actual implementation of the planned annual activities under the income plan was 2.4% lower. During 2019, 41 thousand people ceased the accumulation of the second pension pillar. For them, funds amounting to EUR 108.1 million were returned to the Fund. The amount was not planned when approving the SSIF budget however was presented in its execution. This information on how the result of the SSIF changed due to decisions taken to transfer income earned in previous periods to the Fund was not disclosed (Sub-section 1.2, p.13).

3. Readiness for the implementation of the new function of supervision of validity and regularity of determining disability or temporary incapacity for work was not ensured

Since 01/01/2019, the State Social Insurance Fund administration agencies have been assigned to perform the function of supervision of validity and regularity of disability, temporary incapacity for work or capacity for work, its cause, occurrence time, or time limit, however, readiness for its implementation was not ensured. According to the assessment of the Fund administration agencies, they themselves do not have the necessary competencies to perform this function, therefore, they have to acquire services to perform the new function. Currently, a solution is still being sought on how to do this. At the initiative of the National Audit Office of Lithuania, a discussion of the Ministry of Social Security and Labour and the Board of the State Social Insurance Fund with the Public Procurement Office, Ministry of Health, and the Ministry of Economy and Innovation was started in order to choose an appropriate option (Sub-section 2.1, pp.13–14).

4. It is planned that the accumulated reserve will be sufficient to cover the Fund's liabilities for 2020, however all risks have not been assessed

In 2019, the Social Insurance Reserve Fund accumulated a reserve of EUR 195 million. In 2020, it was calculated to transfer additional EUR 411 million to this reserve fund for the result of 2019, but this amount has not been transferred. As the State Social Insurance Fund did not collect the planned contributions in 2020, it was decided by the Government Resolution to use this amount of EUR 606 million (EUR 195 million transferred and EUR 411 million planned to be transferred) to cover the expenses of the Fund. The Fund Board estimates that the accumulated reserve will not be lacking. The reserve amount of EUR 100 million is expected to remain unused at the end of 2020, however the possible recurrent outbreak of COVID-19 (coronavirus infection) pandemic or crisis phase resulting from this pandemic, as well as the impact of the adoption of aid measures for the solvency of undertakings is not estimated (Sub-section 2.2, pp.14–15).

5. Increased risk to the Fund due to unreceived additional pension cumulative contributions

The Law on the Accumulation of Pensions provides that the Fund Board shall transfer contributions to pension accumulation companies on the basis of information about state social insurance contributions calculated by insurers but not yet received. In such a situation, the amount not transferred by insurers to pension accumulation companies shall be transferred from the funds allocated for the needs of social insurance. It is not regulated that, including the contributions paid, a crediting priority would be given to supplementary pension contributions, compared to state social insurance contributions, however, these contributions are credited first, and state social insurance contributions are deducted only from the remaining amount of contributions to the income of the Fund. Due to the increase of these contributions not received from employers, the growth of risk to the Fund is observed: in 2019, the amount of supplementary pension accumulation contributions of insured persons (EUR 0.4 million) increased by 27.8% compared to 2018 (Sub-section 2.3, pp. 15–16).

6. Part of the information on SODRA[1] website was not relevant, the functionality of the website was not always adapted to remote access to services

The relevance of on-line services is increasing, especially since the Government's declaration of the quarantine regime in 2020. To this end, institutions must ensure that the websites they use are user-friendly, operational, and that the information contained therein is correct. We found that SODRA website provided the residents with some non-relevant information on contributions, benefits, contribution codes, part of the invalid application forms, and no active link on how to submit them on-line. During the audit, the SSIF Board ordered software changes in order to allow residents to fill in applications on-line comfortably, part of inaccurate information was revised, relevant links, explanations were placed, other amendments were made (Sub-section 2.4, pp. 16–17).

[1] SODRA - The State Social Insurance Fund Board under the Ministry of Social Security and Labour

7. There is a lack of consistent and faster action to implement the recommendations made

We are missing actions to ensure the implementation of the recommendations made in previous audits. Until now, the State has failed to create common social security system financed from the state and social insurance budgets, to define common principles of state social insurance; therefore, benefits having characteristics of social assistance are paid from the Fund. When compiling the budget of the State Social Insurance Fund, such amounts of state social insurance contributions that would ensure sufficient financing for the implementation of all types of social insurance are not planned and the accumulated results of individual types of insurance required for decision-making are not calculated. We are also missing accelerated actions on the next steps to optimise the Fund's structure. It was planned to implement it gradually, however, decisions were taken on only two (out of 13) territorial divisions, whose annual income collected into the budget of the Fund in 2018 accounted for approximately 3% of the total income of the Fund, and in 2019 – about 1%. Implementation of further plans to reduce the number of legal entities is delayed (Sub-section 2.5, pp. 17–20).

Recommendations

To the Ministry of Social Security and Labour

1. Taking into account the provision of the Law on the Accumulation of Pensions that the Fund Board transfers contributions to accumulate supplementary pension to pension accumulation companies on the basis of information about the amounts calculated by insurers but not yet available, we recommend that legal acts provide for the source of such transfers and establish the ranking of crediting of these contributions in respect of social insurance contributions (5 key audit result).

The measures and deadlines for the implementation of recommendations are set out in the "Recommendations Implementation Plan" section of the report (p. 21).

In order to have reliable data on financial reports and optimise the activities of the Fund, it is important to implement the recommendations made during the previous audit, (01/10/2018 Public Audit Report No. FA-2018-P-6-4-8-1 "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"):

1. In order to ensure the provision of reliable financial information to customers, to optimise the process of accounting and reporting: to refrain from compiling two sets of reports on the same accruals principle and to provide relevant data on the execution of the Fund in a single set of reports;

2. In order to optimise the functioning of the Fund and simplify the management structure of the Fund, 13 existing Fund administration agencies should be merged into a single legal entity;

3. Use such accounting methods/procedures as to ensure that the accrued result is presented according to different types of social security (subject to the fact that the law

approves not only the general rates of contributions but also the amounts applicable to certain types of social security).