NATIONAL AUDIT
OFFICE OF LITHUANIA
• BRINGING BENEFITS •

PUBLIC AUDIT REPORT

ASSESSMENT OF REGULARITY OF THE MANAGEMENT, USE AND DISPOSAL OF STATE BUDGET FUNDS ALLOCATED IN 2020 TO THE PUBLIC ESTABLISHMENT FOUNDATION FOR DISPOSAL OF GOOD WILL COMPENSATION FOR THE IMMOVABLE PROPERTY OF JEWISH RELIGIOUS COMMUNITIES

10 February 2021

No. FAE-1

The main function of the National Audit Office of Lithuania is to supervise the lawfulness and effectiveness of the management and the use of public finances and other property and the execution of the State budget. By providing audit observations and recommendations, the National Audit Office aims to improve the efficiency of the public sector and the benefits it brings to society, and to set an example for the public sector as a whole by setting the highest standards of quality in its work.

The audit was carried out by: Daiva Sakalauskienė (team leader from 03/11/2020 to 28/01/2021), Inga Liutkevičiūtė (team leader from 29/01/2021 to 10/02/2021), Gintaras Pakalniškis, Giedrė Stalauskienė.

Public Audit Report has been submitted to: the Committee on Audit of the Republic of Lithuania, the Office of the Government of the Republic of Lithuania, and the public establishment "Foundation for Disposal of Good Will Compensation for the Immovable Property of Jewish Religious Communities".

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INTRODUCTION

Objective and Scope of the Audit

In accordance with the Law[1], we have carried out audit of regularity of the management, use and disposal of State budget funds allocated to the public establishment "Foundation for Disposal of Good Will Compensation for the Immovable Property of Jewish Religious Communities" in 2020, and of the State immovable property transferred to the ownership of the Foundation in 2020. The audit has been performed in accordance with the Public Auditing Requirements 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 regularity of the management, use and disposal of the State budget funds and property in 2020 is expressed in the auditor's report.

The scope and methods of the audit are described in greater detail in Annex "Audit Scope and Methods" (p. 7).

Purpose of the Good Will Foundation

As of 1 December 2011, a law came into force[2], which sets the amount of monetary compensation payable for the immovable property of the Jewish religious communities in Lithuania at EUR 37.07 million, the term of payment (until 1 March 2023), the procedure, and the purpose of use. Since the Law entered into force, EUR 29.83 million (80.5% of the compensation) has been paid.

According to the Law[3], the compensation is paid from the State budget to a fund designated by the Government of the Republic of Lithuania to dispose of the compensation. Such foundation, designated by the Government[4], is the Foundation for Disposal of Good Will Compensation for the Immovable Property of Jewish Religious Communities.

The National Audit Office carries out a public audit of the Foundation and submits a public audit opinion and report to the Government by 10 February each year[5]. Where the public audit opinion concludes that the foundation disposes of the compensation funds transferred thereto or uses the immovable property transferred thereto not according to the purpose stipulated in this Law or otherwise infringes the provisions of this Law, the Government of the Republic of Lithuania shall have the right to suspend the payment of the compensation amounts and disposal thereof and take a decision on the appointment of another foundation.

[1] Law on Good Will Compensation for the Immovable Property of Jewish Religious Communities, Article(2)(6)

[2] Ibid. Article(1)(8)

[3] Ibid. Article 8(2)

[4] Government 04/04/2012 Resolution No. 357 on the designation of foundation for disposal of good will compensation for the immovable property of Lithuania's Jewish religious communities.

[5] Law on Good Will Compensation for the Immovable Property of Jewish Religious Communities, Article 2(6)

According to the Law[6], the monetary compensation received by the Foundation can only be used for these purposes:

- to fund the religious, cultural, health care, sports, educational and scientific projects pursued by Lithuanian Jews in Lithuania;
- to support the persons of the Jewish nationality who resided in Lithuania during the Second World War and who suffered from the totalitarian regimes during the occupations (funds used in 2013–2014);
- to cover the costs of administering the Foundation, the annual amount of which may not exceed 10% of the annual share of the monetary compensation approved in State's each year budget.

Unused monetary compensation funds can be deposited in banks and, as of 26 March 2016, invested, depending on the following criteria: the safety of the invested funds, the liquidity of the funds, the annual return, and the level of commissions or other costs. The interest earned can be used to fund targeted projects and to pay for the Foundation's administration costs.

The Foundation has an internal control system in place to ensure proper use of the compensation. The Foundation's administration carries out an initial assessment of the eligibility of project applications and their compliance with the project applications rules[7]. The Project Selection Committee[8] carries out a qualitative assessment of project applications and sets recommended funding values for projects. The Board of the Foundation considers and decides on the funding of projects submitted by the Foundation[9].

As part of its monitoring of projects' implementation, the Foundation's administration analyses the reports submitted by project promoters and assesses the eligibility of projects' costs.

The Seimas of the Republic of Lithuania approved EUR 3.62 million in the State Budget for 2020[10] for compensation for the immovable property of Lithuania's Jewish religious communities (in the form of appropriations from the Office of the Government). The Office of the Government has transferred these funds to the Foundation in 2020. In 2020, the Foundation paid a total of EUR 2.11 million in compensation to project promoters and incurred administrative costs of EUR 0.21 million (5.9% of the annual share of the monetary compensation). The unused balance of the compensation funds in the bank accounts as of 31/12/2020 amounted to EUR 4.31 million, the invested part of the funds amounted to EUR 11.85 million, and a decision was taken at the Board's meeting on 22/12/2020 to allocate a further EUR 1.42 million of the unused part of the compensation funds to be used for investment. According to the data of 31 December 2020, 39.7% of the

[6] Ibid., Article 3

[7] Rules for the submission of applications for projects financed by the Good Will Foundation approved by the Sole Shareholder's Decisions (No 1/2017-09-08 of 08/09/2017, No 1/2018-01-22 of 22/01/2018, No 1/2019-08-30 of 30/08/2019, No 1/2020-09-14 of 14/09/2020).

[8] The Rules of Procedure of the Project Selection Committee of the public establishment "Good Will Foundation" approved by the 27/11/2018 Decision of the Sole shareholder No.1/2018-11-27/2018.

[9] Ibid.

[10] Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2020.

total amount of compensation paid to the Foundation was invested after the funds were allowed to be invested by the Law of 17 March 2016[11].

In 2020, the Government[12] transferred to the ownership of the Foundation the state-owned immovable property held in trust by the Department of Cultural Heritage under the Ministry of Culture – religious buildings in Vilnius[13], as compensation for the immovable property owned by the Jewish religious communities for the religious, cultural, educational and scientific purposes of Lithuanian Jews. The amount of monetary compensation to be paid in 2023 will be reduced by the value of these buildings.

[11] Law amending Article 3 of the Law on Good Will Compensation for the Immovable Property of Jewish Religious Communities.

[12] Government Resolution No 849 of 29 July 2020 on the transfer of the State immovable property to the ownership of the public establishment "Foundation for Disposal of Good Will Compensation for the Immovable Property of Jewish Religious Communities".

[13] Foundations of the Great Synagogue of Vilnius and the Mikvah building, valued at EUR 1.24 thousand .

AUDIT RESULTS

Compensation is used in accordance with the legislation

1. Having carried out the assessment of regularity of the management, use and disposal of the State budget funds allocated by the Office of the Government to the public establishment “Foundation for Disposal of Good Will Compensation for the Immovable Property of Jewish Religious Communities”; as well as of the State immovable property transferred to the ownership of the Foundation in 2020, we did not find any material irregularities. In our previous audit[14], we made observations on the Foundation’s assessment of project applications and monitoring of project performance and recommended improvements to the legal framework for these processes. During the audited period of 2020, the recommendations were not implemented, therefore the mentioned processes did not change substantially: we found cases when the decisions made in the assessment of project applications lacked reasoning, the costs indicated in the project promoters’ reports on payments did not have a clear link with the project objectives. It should be noted that in January 2021, the Foundation implemented measures to reinforce the requirements for the information to be provided by project promoters (reporting on funds used).

2. In the previous audit, we found that the Foundation used EUR 313.80 thousand of the compensation funds in 2012–2015 for purposes other than those set out in the Law, i.e., to cover administrative costs. The Foundation has committed to recovering these funds (to gain the share of funds earmarked for the funding of projects) from the income of investments and sales from 01/01/2017 to 01/03/2023[15].

3. In 2020, EUR 60.75 thousand has been gained and a total of EUR 70.11 thousand or 22.3% of the funds not used for their intended purpose have been recovered by 31 December 2020. Unrecovered balance of funds as of 31/12/2020 amounts to EUR 243,68 thousand. The Foundation informed that a decision had been taken to return the profit made in 2020, amounting to EUR 11.9 thousand, to the share earmarked for the projects’ funding. At the request of the Office of the Government, the Foundation has drawn up a plan for the recovery of the funds used not for their intended purpose. The Plan provides projections of the return on available investments, which assume that the projected returns in future periods will be sufficient to cover the balance of the funds used not for their intended purpose.

4. Given the amount of the Foundation’s profits in recent years and the fact that the approved recovery plan does not foresee a recovery in the interim period, we see a risk that funds will not be returned to the projects’ share of funding in the expected timeframe, that the commitment set out in the agreement on the transfer and use of the compensation for the immovable property of the Jewish religious communities of Lithuania concluded with the Office of the Government will not be fulfilled. We have therefore proposed[16] that already at this stage the Foundation should put in place measures to manage these risks.

Director of the Financial Audit Department — Emilija Jasaitienė

Auditor of the Financial Audit Department — Inga Liutkevičiūtė

[14] Public audit report “Assessment of Regularity of the Management, Use and Disposal of State Budget Funds Allocated in 2019 to the public establishment “Foundation for Disposal of Good Will Compensation for the Immovable Property of Jewish Religious Communities”” of 10/02/2020, No. FAE-1.
[15] Agreement on the transfer and use of compensation for the immovable property of the Lithuania’s Jewish religious communities of 01/03/2020, No LRVK-30/20.
[16] 07/01/2021 Letter No SD-(6-9.1.1-E-6083)-81 concerning the results of the public audit.

ANNEX

Public audit report
“Assessment of Regularity of the Management, Use and Disposal of State Budget Funds and Property Allocated in 2020 to the public establishment “Foundation for Disposal of Good Will Compensation for the Immovable Property of Jewish Religious Communities””.
Annex

Scope and Methods of the Audit

Objective of the Audit

- To assess the regularity of the management, use and disposal of State budget funds and property allocated in 2020 to the public establishment “Foundation for Disposal of Good Will Compensation for the Immovable Property of Jewish Religious Communities”.

The Audit was performed:

- in accordance with the Public Auditing Requirements[17] and International Standards of Supreme Audit Institutions[18];
- to obtain reasonable assurance that State/Foundation funds and property are managed, used and disposed of in compliance with regulations. Absolute assurance is not possible due to the inherent limitations of audit and internal control and the fact that we have not tested all (100%) of the economic transactions, economic events and concluded contracts

Scope and Methods of the Audit	
Compensation received and costs incurred in 2020	In 2020, the Foundation received EUR 3.62 million in compensation from the Office of the Government, which the Board decided[19] to allocate as follows: • EUR 1.83 million, or 50.7%, was earmarked to the funding of the projects; • EUR 0.36 million, or 10%, was earmarked to cover administrative costs; • EUR 1.42 million, or 39.3%, was earmarked for investment. Costs incurred in 2020: • EUR 2.11 million was transferred to projects and EUR 2.39 million was recognised as costs (eligible costs recognised by project promoters);

[17] Auditor General Decree No. V-26 of 21 February 2002 “On the Adoption of the Public Auditing Requirements”.

[18] The Compliance Audit Standard (ISSAI 4000). Internet access: https://www.issai.org/pronouncements/issai-4000-compliance-audit-standard/.

[19] 22/12/2020 Minutes of the meeting of the Board of the public establishment “Foundation for Disposal of Good Will Compensation for the Immovable Property of Jewish Religious Communities” and the Board of the public establishment “Foundation for the Lithuanian Jewish heritage”, No. 15 (Question 6).

Scope and Methods of the Audit	
	• administration costs amounted to EUR 0.21 million; EUR 1.44 million invested in 2020.
Property disposed by the Foundation in 2020	The Government[20] transferred to the ownership of the Foundation the immovable property owned by the Department of Cultural Heritage under the Ministry of Culture and held in trust by the State – religious buildings in Vilnius (the foundations of the Great Synagogue of Vilnius and the Mikvah building), with a value of EUR 1.24 thousand, as the compensation for immovable property owned by Jewish religious communities, for the religious, cultural, educational and scientific purposes of Lithuanian Jews.
Areas where the effectiveness of control procedures has been established (control testing performed)	The test of the Foundation's performance and internal control systems did not reveal any material risks. Performed control tests to ensure internal control (for the selected projects): • Administrative assessment of project applications; • Assessment of the monitoring process of project promoters; • Assessment of the quality of reporting by project promoters.
Areas where substantive audit procedures (tests of details and/or analytical procedures) were performed	The substantive procedures were carried out to assess the regularity of the management, use and disposal of State budget funds and property allocated to the Foundation in 2020: • we assessed the use of funds for the funding of the projects. We selected and examined 10 projects. EUR 1.66 million, or 78.8%, of the total compensation funds transferred to fund projects in 2020 have been assessed; • we assessed the use of the funds to cover administrative costs (83.4% of these costs were examined). The costs of earnings, legal and project assessment services were assessed; • we assessed whether the choice of investment measure took into account the safety of the invested funds, liquidity, annual return, level of fees or other costs; • we examined whether the balances of the compensation funds as shown in the bank statements (at year-end) were consistent with the balances shown in the accounting records; • we assessed the Foundation's compliance with its contractual obligations to recover funds not used for their intended purpose; • we assessed the validity of the applications rejected in 2020.
Legislation assessed for compliance:	• Law on Good Will Compensation for the Immovable Property of Jewish Religious Communities No. XI-1470 of 21 June 2011 (with subsequent amendments); • Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2020 No XIII-2695 of 17 December 2019; • Articles of Association of the public establishment "Foundation for Disposal of Good Will Compensation for the Immovable Property of Jewish Religious Communities", registered in the Register of Legal Entities on 30/12/2015; • Rules for the submission of applications for projects financed by the Good Will Foundation approved by the Sole Shareholder's Decisions (No 1/2017-09-08 of 08/09/2017, No.1/2018-01-22 of 22/01/2018, No 1/2019-08-30 of 30/08/2019, No 1/2020-09-14 of 14/09/2020); • The Rules of Procedure of the Project Selection Committee of the public establishment "Good Will Foundation" approved by the 27/11/2018 Decision of the Sole Shareholder No.1/2018-11-27/2018; • The description of the procedures for monitoring, verifying and approving the activities, performance and financial statements of the projects financed by the Foundation for Disposal of Good Will Compensation for the Immovable Property of Jewish Religious Communities has been approved by the Orders of the Director of the public establishment "Foundation for Disposal of Good Will Compensation for the Immovable Property of Jewish Religious

[20] Government Resolution No 849 of 29 July 2020 on the transfer of the State immovable property to the ownership of the public establishment "Foundation for Disposal of Good Will Compensation for the Immovable Property of Jewish Religious Communities".

Scope and Methods of the Audit	
	Communities" (No 59 of 13/12/2017, No 94 of 15/01/2019, No 94 of 15/01/2019 and No 112 of 31/10/2019); • Ethical Guidelines and Practices, including the Conflicts of Interest Policy, approved by the Sole Shareholder' Decision No 1/2018-03-12 of 12/03/2018.

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