NATIONAL AUDIT
OFFICE OF LITHUANIA

ASSESSMENT OF 2020 SET OF NATIONAL FINANCIAL STATEMENTS AND DATA OF PUBLIC DEBT AND ITS MANAGEMENT

01 October 2021

No. FAE-13

SUMMARY

The Objective and Scope of the Audit

In accordance with the Laws on National Audit Office[1], Public Sector Accountability[2] and National Debt[3], we carried out an audit of the 2020 set of national financial statements, data of public debt and its management.

The audit was carried out in accordance with the Auditing Requirements of the National Audit Office (NAOL) in force until 30 June 2021, the International Standards on Auditing and the International Standards for Supreme Audit Institutions. The scope and methods of the audit are described in greater detail in Annex 1, Audit Scope and Methods (p. 28).

Key Results of the Audit:

1. Entry into force of the new procedure for preparing sets of statements to be postponed by one year

The National Set of Financial Statements is submitted to the National Audit Office late, i.e. without meeting the deadline set by law (31 July at the latest). This year, the Set was submitted on 31 August.

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[1] Law on National Audit Office, Article 8(2)(5) (Article 9(3)(5) of the Law , which was in force until 1 July 2021).

[2] Law on Public Sector Accountability, Article 30(2)(5).

[3] Law on National Debt, Article 11(1).

In 2020, a new version of the Law on Public Sector Accountability was adopted. Once in force, it will change the composition, deadlines for submission, and procedure of the annual sets of statements submitted by the Government to the Seimas (and approved by the Seimas) – the new provisions will allow performance to be linked to financial data. This data will have to be prepared and presented to the Seimas during the spring session and the sets of statements of profit-making entities controlled by the State and municipalities will be included in the sets of statements, which are currently not consolidated. The changes to the legal framework will implement the recommendations made by the National Audit Office to harmonise the timing of reporting on performance and financial accountability to the Seimas and to extend the scope of consolidated entities to the general government. The new procedure was due to enter into force on 01/01/2022, however, preparedness for the transition to the new procedure for the preparation and presentation of sets of statements of public sector entities have taken time. Ministry of Finance, given that the legislation implementing the Law on Strategic Management was only adopted at the end of April 2021, and the Strategic Management Information System (SMIS), which is needed to efficiently collect information on the implementation of progress measures, will be completed by 1 January 2023, proposes to postpone this entry into force by one year (Sub-section 1.1, p.p. 11–12).

2. The set of financial statements contains material misstatements of data

For nine consecutive years (since the compilation), we have found material misstatements in the set of national financial statements: they do not present the true value of our State's assets, liabilities, and income. Due to internal control weaknesses, data for 9 entities are not included in the 2020 set. Due to incorrect data and misstatements made by the entities in the consolidation system, the balances of the financing amounts (from the EU, from foreign countries and international organisations, from other sources) are incorrect and we cannot confirm the fairness of the item balance of the minority share. Accounting problems affecting the accuracy of data in previous years' sets of statements persisted in 2020:

- We cannot confirm the correctness of 81% of the tax revenue, as the circumstances relating to the deficiencies of the IS used by the State Tax Inspectorate for the management of the tax fund accounting remained.
- The Ministry of Energy's accounts incorrectly disclose long-term liabilities for the future decommissioning of the Ignalina Nuclear Power Plant and for the installation of a deep repository, as a result, we cannot confirm the correctness of the balance of the liabilities of EUR 2,690.6 million and of the accrued result of the same amount. In addition, a long-term receivable from the EU of EUR 612.1 million has not been recorded due to the European Commission's decisions to allocate funds for the closure of the Power Plant.
- Courts still do not record the economic transactions relating to stamp duty revenue and fines imposed by them in accordance with the requirements of SPSAFR and do not disclose this information in their financial statements.
- Data on forest land (Ministry of Environment) and biological assets (National Land Service) are not reliable.

In 2020, institutions facing atypical situations (pandemic, reorganisation, etc.) made errors resulting in misstatements in their accounting and annual sets of statements:

- We cannot confirm the correctness of the Ministry of Transport and Communications' set of financial statements, as part of assets and liabilities have not been inventoried or have been inventoried formally, inventory descriptions/reconciliation sheets of prepayments, receivables and current liabilities have not been established, no date of origin and reconciliation of debts, no reconciliation of amounts with non-PSEs and no reconciliation certificates were prepared. The misstatements were also affected by a significant change in the area of management of the Ministry of Transport and Communications – as of 1 September 2020, the budget institution Lithuanian Road Administration was transformed into a state enterprise. The Ministry's accounting was managed by the National Shared Functions Centre, however, the Ministry itself found errors, which the Centre undertook to correct in 2021. The Ministry of Transport and Communications did not sign the 2020 set of financial statements until 28 September 2021.

- The accounting data of the two institutions under the Ministry of Health – the Health Emergency Situations Centre and the National Public Health Surveillance Laboratory – are unreliable as the institutions have not been able to cope with the increased volume of activities due to the pandemic.

In 2020, the municipal control and audit offices did not certify the regularity of EUR 1,156.2 million of fixed assets and the amounts of financing and net assets related to these assets. Most of this amount accounts for incorrect accounting of municipal roads and streets.

The proportion (EUR 39.5 million) of the compulsory health insurance contributions paid by the self-employed (if they have not exercised their right not to pay for more than 2 years) to the National Social Insurance Fund was not used to reduce their calculated contribution liabilities (EUR 35.6 million), and overpayments were recorded and estimated liabilities were incorrectly classified as receivables within one year. In the Compulsory Health Insurance Fund, social contributions receivable from the State Social Insurance Fund amounting to EUR 28.0 million were incorrectly accounted for as short-term, although the contributions deferral agreements signed will result in the receipt of contributions from policyholders after one or more years. In addition, other reserves do not report reserve balances at the end of reporting periods, establishment and use of reserves in the sets of consolidated financial statements of both Funds as of 31/12/2020. These circumstances resulted in material misstatements of the consolidated financial statements of the State Social Insurance and Compulsory Health Insurance Funds (Sub-section 1.2, pages 12–18).

3. Implementation of the recommendations would contribute to reducing accounting errors

In order to reduce the level of misstatements in the accounting of public sector entities, we recommend the Ministry of Finance take measures to address the most common causes of errors, following our annual audits. In previous audits, we have made recommendations to initiate a review (inventory) of the activities carried out by the PSEs and the related assets and liabilities and to decide on the application of a common (uniform) accounting policy. We continue to monitor these recommendations and hold an opinion that the Ministry should take more active steps to implement them.

The recommendation related to the improvement of the process for the preparation of the consolidated financial statements has been partially implemented. For the preparation of the 2021 set of consolidated financial statements, the PSEs will have to provide additional information on the opening balances for 2021, i.e. accumulated elimination information, where we find errors each year, will not be carried forward (Sub-section 1.2, p.p.18–20).

4. The debt figures are correct in all material respects

At the end of 2020, general government debt accounted for EUR 23.1 billion, during 2020 – increased by EUR 5.5 billion, or by 32%, the debt-to-GDP increased by 11.2 p.p. and at the end of 2020 accounted for 47.2% of GDP. We have not identified any inaccuracies in the debt data. The main reason for the increase in debt was borrowing to finance measures related to COVID-19 and to stimulate the economy.

We found that municipalities incorrectly report data to the Ministry of Finance on guarantees granted – their actual guarantee liabilities are EUR 12,7 million lower than those indicated in the statements submitted to the Ministry (EUR 63.2 million) (Sub-section 2.1, p.p. 21–22).

5. 2.9 times more borrowing than planned in 2020

2020 borrowing needs estimated in autumn 2019 accounted for EUR 2.7 billion. Actual borrowing in 2020 amounts to EUR 7.9 billion, i.e. 2.9 times more than planned in 2020. When borrowing in 2020, the Government followed the borrowing limits and borrowing legislation, however, EUR 3.3 billion of the borrowings on behalf of the State in 2020 have been earmarked by the Government for expenditures, which were not included in the appropriations approved in the 2020 State budget (Sub-section 2.2, p.p. 23–25).

6. Actions to reduce debt levels are earmarked in the debt management strategy to be prepared in 2022

The three borrowing and debt management targets set out in Lithuania's Stability Programme for 2020 have been met in line with the established criteria. The National Audit Office has, in previous audits, highlighted the need for an optimal debt level and a plan to achieve it, as recommended by the Organisation for Economic Co-operation and Development. The Government plans to prepare a strategy for public sector debt management, including the definition of an optimal debt level and a plan to achieve it in the long term by Q2 2022 and submit it together with Lithuania's Stability Programme for 2022 (Sub-section 2.2, p. 26).

7. Reserves replenished less than planned in 2020

The 2020 results estimate accumulates EUR 1,354.3 million in the reserves of the Reserve (Stabilisation) Fund, the State Social Insurance Fund and the Compulsory Health Insurance Fund. In 2020, the replenishment of reserves was lower than planned (Sub-section 2.2, p.p. 26–27).

Recommendations

During the audit, we made two recommendations to the Ministry of Finance – for the improvement of the management of the State's monetary resources and State guarantees accounting – which the Ministry has committed to implement by Q3 2021 and Q1 2022 respectively. To have reliable financial statements data and public debt data, it is also important to follow the recommendations made in previous audits on the regularity of the 2016–2019 set of national financial statements, public debt data and the assessment of public debt management. The status of implementation of the recommendations of the national audits is monitored on a regular basis and up-to-date information on their implementation is published on our website (https://www.valstybeskontrole.lt/LT/AtviriDuomenys).