NATIONAL AUDIT
OFFICE OF LITHUANIA

ASSESSMENT OF REGULARITY OF 2020 SETS OF STATE CONSOLIDATED FINANCIAL AND BUDGET EXECUTION REPORTS

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No FAE-12

SUMMARY

The Objective and Scope of the Audit

Pursuant to Article 134 of the Constitution of the Republic of Lithuania, the Statute of the Seimas, the Law on National Audit Office, the Law on Public Sector Accountability and the Law on the Budget Structure, we have carried out an audit of the 2020 set of State consolidated reports (SSCR).

Given the importance of budgetary governance for a rational and transparent allocation and use of public resources, we assessed the progress of the ongoing transformation of strategic planning and budgeting by monitoring progress in the implementation of recommendations made in the area of budget formation and execution.

The audit was carried out in accordance with the Auditing Requirements of the National Audit Office[1], ISAs, and ISSAIs. The scope and methods of the audit are described in greater detail in Annex 2, Audit Scope and Methods (p. 40).

Key Results of the Audit:

1. Misstatements in the set of State consolidated financial reports are material and prevalent

Having quality public sector data and making them available to the public enable greater efficiency within public administration institutions and in inter-institutional cooperation, increase government transparency and promote citizens involvement in the process of decision-making.

[1] Auditor General's Decree No. V-26 of 21 February 2002 "On the Adoption of the Public Auditing Requirements" (remained in force till 30/06/2021).

One of the fundamental data sources is the financial data of the public sector entities (PSEs), which are still unreliable.

Material misstatements were found in SSCR that could be reliably assessed by public auditors (known error) regarding Articles for fixed assets, operating expenses, whereas material amounts, which could not be confirmed as correct for a variety of reasons, were identified in essence in all the items in the balance sheet, and therefore it is not possible to confirm the correctness of the results of activities for the year 2020 as set out in the sets of reports (Sub-section 1.1, p. 15).

1.1. Accounting problems that have persisted from their keeping under the Standards of Public Sector Accounting and Financial Reporting (SPSAFR) in 2010 continued in 2020

- We cannot confirm the correctness of 98% (EUR 8,598.8 million) of he data on tax income and the related receivables and payables as, during the audited period of the year 2020, the circumstances related to the shortcomings in the information system (IS) used for the accounting of the tax fund, which continues to result in the incorrect recording of receivables and payables and misstatement of the financial statements, remained unchanged.
- The Ministry of Energy's accounting misstated fixed liabilities for the future costs of decommissioning the Ignalina Nuclear Power Plant and the installation of a deep repository and incorrectly applied an interest rate when recalculating the present value of these liabilities and the amortised cost of the related long-term receivables for the period 2018–2020. Therefore, we cannot confirm the correctness of the balance of liabilities (long-term provisions) of EUR 2,690.6 million and the accumulated result of the same level. 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 Ignalina Nuclear Power Plant.
- Decisions on how to account for the income of the Courts have not yet been taken, as the Courts do not record the economic transactions related to the revenue from stamp duty and fines imposed by them in accordance with the requirements of the SPSAFR, nor do they disclose this information in their financial statements. EUR 18 million from stamp duty and fine revenue were received in 2020.
- 9% (around EUR 51.1 million) of movable cultural properties were recorded at a symbolic value of one euro rather than at fair value.
- Forest land (1 % of the value of land specified in the set of consolidated reports) is unreliable as the Ministry of the Environment has not registered and deregistered the State-owned agricultural parcels taken over from and transferred to the National Land Service, the fair value of the land has been misstated and has not been adjusted for the purpose of the financial statements, and the inventory of the land has been performed inadequately.
- The fair value reserve (and financing amounts) are unreliable as the National Land Service's accounting for biological assets is not kept in accordance with the requirements of the SPSAFR in such a way that the correct changes in the value of the assets can be identified, such as whether the value of the stands has increased due to the creation of new ones, or decreased due to the transfer of the stands to other entities, or whether the change in the value of the stands has been due to a change in the fair value of the stands that were accounted previously in the reports.

- Liabilities to finance the modernisation and renovation of multi-apartment buildings have not been registered: they have not been registered by the Housing Energy Efficiency Agency[2], which has been providing State support to municipalities for the modernisation and renovation of multi-apartment buildings since 2014.
- The Set of state consolidated reports did not include the data of 2 entities and, due to misstated entries when consolidating the reports, the amounts of funding from the EU were increased by EUR 20.4 million and from other sources – by EUR 276.8 million (Sub-section 1.1.1, p. 16).

1.2. Institutions facing atypical situations in 2020 (pandemic, restructuring, etc.) made errorsin

- The Ministry of Transport and Communications' accounts were kept by the National Shared Functions Centre, however, the Ministry itself identified material errors and did not sign the set of financial reports. We found misstatements in the inventory documents and the accounting registers, unreconciled prepayments, receivables and current liabilities, and material discrepancies from prior periods in the cash flow report, however, the accounting registers necessary to assess the accuracy of the report were not provided to the auditors. This was also influenced 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 signed the 2020 set of financial reports on 28/09/2021 when the National Shared Functions Centre started correcting errors in the 2021 accounting registers, however, our assessment of the evidence gathered during the audit did not allow us to confirm the fainess of its data.
- The accounting data of the institutions under the Ministry of Health – the Health Emergency Situations Centre (HESC) and the National Public Health Surveillance Laboratory (NPHSL) – are unreliable as the institutions have not been able to cope with the increased volume of activities due to the pandemic. The Institutions did not carry out (NPHSL) or only partly carried out (HESC) an inventory of fixed assets and stocks. The National Shared Functions Centre, which kept the accounting of these institutions, did not provide the auditors with the NPHSL's registers of prepayments and current liabilities, the summary ledger (general ledger) for the accounting period and other information, and the HESC's accounting registers and financial reports contained some discrepancies.
- In 11 (of 13 audited) social care institutions under the Ministry of Social Security and Labour, recurrent shortcomings in the accounting of assets, income and costs were identified, which resulted in incorrectly calculated depreciation costs, incorrectly grouped fixed assets and incorrectly grouped income and costs. As many as 5 (of the 13 audited) social care institutions had unreliable accounting data, as their sets of reports were not prepared on the basis of the accounting register (general ledger) data.
- For 4 (of the 14 audited) entities that have started accounting under SPSAFR, the data is unreliable: one PSE that was due to start accounting under SPSAFR in 2020 did not do so, and three PSEs that were due to do so in 2019 did not even start in 2020 – they did not approve their accounting policies for public-sector entities, and they kept their accounting in accordance with an accounting policy that is not applicable to the public-sector entities (Sub-section 1.1.2, p. 23).

[2] Established on 19/02/2013.

1.3. A responsible approach to accounting by public sector entities and implementation of the recommendations would contribute to reducing accounting shortcomings

We found that 9 entities (out of 97 audited) did not comply with the Laws on Accounting and Public Sector Accountability in their 2020 accounting, as the sets of financial reports were not prepared on the basis of the accounting registers data. We observed a practice where entries were made in the accounting registers after the data in the sets of financial reports had already been submitted to the Public Sector Accounting and Reporting Consolidation Information System and confirmed, i.e. the entries in the accounts were adjusted after the set of financial reports had been prepared and submitted. In these circumstances, we made recommendations to the controlling bodies to investigate the conditions for organising and keeping the accounts and to take action to assess their liability in accordance with the procedures laid down by law.

The implementation of the National Audit Office's 2017 and 2019 recommendations to the Ministry of Finance on the review of the activities of public sector entities to have complete accounting data and a common (uniform) accounting policy would help institutions to have correct data. However, already in 2020, we found that the measure chosen by the Ministry to review the activities of public sector entities had not had an impact and that a different one should be chosen, while the decisions on a common (uniform) accounting policy, which the Ministry of Finance had planned to adopt by 2nd quarter 2021, have not yet been taken. The implementation of these recommendations would reduce the administrative burden for public sector entities, facilitate accounting processes and reduce the volume of errors (Sub-section 1.1.3, p. 28).

2. The set of reports for the execution of the budget is correct in material respects

We did not identify any material misstatements in the audited entities' cash-based budget execution reports for 2020. For the fifth year in a row, we issue an unqualified opinion on the correctness of the data in the set of State budget execution reports. However, there are still some statements to be corrected in this set of reports – the Ministry of Finance is looking for solutions to correctly disclose a part of the data in the set of reports – the State budget revenue by type (Sub-section 1.2, p. 31).

3. The practical application of the new strategic management system has highlighted areas for improvement, and a qualitatively updated reporting to the Seimas is planned to be postponed

The Law on Strategic Management was adopted by the Seimas in 2020 and the Strategic Management Methodology implementing its provisions was adopted by the Government in 2021. In accordance with this law, a National Progress Plan was adopted, covering all areas of the State's activity, setting out strategic objectives, progress targets, impact indicators, horizontal principles, strategic management system participants responsible for their implementation and financial projections. Work has also started on drafting new quality laws to approve financial indicators for the 2022 State budget and municipal budgets, and on the 2022–2024 Strategic Action Plan.

Taking into account the fact that the legal regulation must ensure the existing State structure (the principle of separation of powers) and the coherence of the functioning of the legislative system, we draw the attention of the Government and the Ministry of Finance to the fact that the regulation laid down in the Law on Strategic Management and the Methodology is not in harmony with the legislation regulating the activities of the independent institutions, which do not have any subordinate powers under the authority of the Government, and that establishes the procedures for the planning of their activities, the reporting procedures and the relevant deadlines. The risk of divergent treatment and misallocation of costs between different public functions was identified by the institutions when drafting the Strategic Operational Plan and when applying in practice the Strategic Management Law and the Methodology. Thus, the legislation on strategic planning needs to be further developed in the course of its implementation.

Accountability for progress will be reported in accordance with the Law on Public Sector Accountability. The adopted recast of the law has changed the composition of the PSEs sets of reports, brought forward the submission deadlines and changed the submission procedures. The new provisions of the law will allow the results of activities to be linked to financial data, with the addition of the State Progress Report to the State annual set of reports. This creates legal preconditions for the implementation of the recommendations made by the National Audit Office related to the improvement of the system of State budget planning and reporting on its execution. The transition to the new reporting procedure should be implemented for the reporting of 2022, i.e., in 2023, however, it is planned to postpone this deadline by another year (Sub-section 2.1, p. 33).

4. More than a quarter of 2020 State budget spending not approved by the Law on Financial Indicators

The Law on Budget Structure allows the use of funds borrowed on behalf of the State for the purposes set out in the Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for a given year to be used for the purposes set out in the Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for a given year, in excess of the total appropriations approved by the Seimas. The practice when the indicators of the State budget approved by the Seimas are amended not by the Seimas itself but by the Government needs to be improved, as it reflects shortcomings in planning, does not provide sufficient information for fiscal risk management and increases the risk of breaching fiscal discipline requirements when they are applied. Therefore, we made a recommendation back in 2016: to ensure compliance with the provisions of the Constitution, to initiate amendments to the legal acts after deciding what financial indicators and how many of them Seimas must approve and the extent of rights to be granted to the Government to execute the budget. The recommendation that has not been implemented has become particularly relevant in the pandemic year 2020 when the scale of borrowed expenditure has increased. In 2020, the State budget has not been revised to the extent of EUR 3,438.4 million, or 26.9% of the appropriations approved by the Law on Financial Indicators.

We expect that substantial changes in budget formation will be achieved through the implementation of Action 10.2.4 in the Government Programme Implementation Plan “Develop and Implement Medium-term Budget Rules” (Sub-section 2.2, p. 35).

5. As the Constitutional Court rules on the application of the flat-rate funding model, the Government must amend the legislation

In 2020, we recommended that the Government review the programmes, funds and institutions that are financed in advance by a share of taxes and other income set by law, assess their appropriateness and scope, and limit the number of such programmes, funds and institutions to the maximum extent possible while ensuring that fixed funding is only used where it is the only objectively reasonable way of funding. We also recommended that, once decisions have been taken on the scope of financing of programmes, foundations and institutions by a share of taxes and other income, the cases and objectives of this method of financing should be defined, the procedures for determining and reviewing the reasonable level of the allocations should be established, and the procedures for reporting on the results of the activities financed by the method and the use of the funds should be established. The Government linked the implementation of these recommendations of the National Audit Office to the assessment of the Constitutional Court.

Following the Constitutional Court's ruling that legislative provisions on the financing of programmes, foundations and institutions by a share of taxes and other income are unconstitutional, the Government plans to draft 11 laws and submit them to the Seimas by the end of 2021: Waste Management, Sport, Health, Climate Change Management Financial Instruments, Budget Structure, Road Maintenance and Development Programme Funding, Environmental Support Programme, Forests, Cultural Support Fund, Cinema and NGO Development (Sub-section 2.3, p. 36).

6. The need for common principles for the project(selection)-based funding was particularly evident in the allocation of support during the pandemic

In the 2019 report, we have provided insights into the project(selection)-based funding method, as it is widely used when the State supports relevant activities and initiatives (of small businesses, agriculture, sports, culture, etc.). We recommended to the Government to regulate common principles and rules for the application of project(selection)-based funding method.

In 2021, we found (Legality of the implementation of the measures under the objective "Helping Businesses to Safeguard Liquidity" of the Economic Stimulus and Coronavirus (COVID-19) Consequences Mitigation Plan) that the conditions for access to State aid for the business and agricultural sectors were not uniform: due to the fall in income in 2020, the size of companies, the maturity and repayment terms of loans, the amount of interest reimbursed, etc., it is therefore appropriate to consider the experience and practices of the pandemic period in the implementation of this recommendation.

The appropriation managers initiate project funding (without public procurement procedures) for the implementation of the measures of the ongoing programmes in accordance with the project(selection)-based funding procedures they have established. The separation of progress and continuous activities in the Law on Strategic Management will not replace the project(selection)-based funding method used by the appropriation managers for both progress and continuous activities, nor will it eliminate the differences in their applied procedures. The Law on Strategic Management and the Methodology regulate the planning of progress funds for progress measures and/or projects which are planned in national development programmes or regional development plans, and the findings of the audit carried out by the National Audit Office refer to one of the funding methods – project(selection)-based funding, which is not defined by the laws regulating the drafting and execution of the State budget (Sub-section 2.4, p. 37).

Recommendations

During the audit, the results of the audit procedures were communicated to the 97 audited entities by 140 letters, of which 82 had observations made on the findings and 16 minor recommendations were made to eliminate accounting shortcomings, to strengthen internal control and to investigate the circumstances of keeping the accounting records.

Information on the status of implementation of key and medium recommendations made but not yet implemented in the first half of 2021 is provided in the Report on the Implementation of the Recommendations of 3 September 2021.