NATIONAL AUDIT OFFICE OF LITHUANIA

# ASSESSMENT OF REGULARITY OF 2020 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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## 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 carried out an audit to assess the regularity of the State Social Insurance Fund's 2020 sets of consolidated financial and budget execution reports, as well as the legality of the management, use and disposal of its funds and assets in the selected areas for audit.

The audit was carried out in accordance with the Public Auditing Requirements in force until 30 June 2021, the International Standards on Auditing and the International Standards of Supreme Audit Institutions. The scope of the audit and the applied methods are described in more detail in Annex 1 "The Scope and Methods of the Audit" (pp. 26–29).

### Key Results of the Audit:

1. The 2020 set of financial reports contains material misstatements of data, whereas the set of budget execution reports is correct in all material respects

The set of consolidated financial reports of the State Social Insurance Fund has not been prepared in all respects in accordance with public sector accountability standards:

- Since 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 obligations (EUR 35.6 million) and overpayments were recorded and estimated liabilities were incorrectly classified as amounts receivable within one year, we cannot confirm the correctness of the contributions receivable by the Fund amounting to EUR 35.6 million and of the overpayments to be refunded amounting to EUR 39.5 million. The Fund Board plans to consider modifying the functionality of the information systems in order to ensure the accuracy of the data presented in the financial reports for 2021 and subsequent years (Sub-section 1.1, p.p. 11–13).
- Amounts of EUR 29.3 million to be administered by the Fund and transferred to the Compulsory Health Insurance, Guarantee and Long-Term Employment Benefit Funds are incorrectly reported as current liabilities in the set of financial reports, as as a result of the contributions deferral agreements signed, they will be received from policyholders and transferred to the Funds after one or more years (Sub-section 1.1, p. 13).
- Other reserves' Articles do not disclose the Social Security Reserve Fund's composition, use and its balances at the end of reporting periods (Sub-section 1.1, p.p. 13–15).



## 2. New requirements will apply to the preparation of the Fund's financial reports

Following the recommendation made in the 2018 audit, amendments to the Law on Public Sector Accountability and Law on the Structure of the Budget of the State Social Insurance Fund were adopted in 2020, which foresee a single (instead of two) set of accrual-based set of reports of the State Social Insurance Fund, the requirements for which are to be set by the Minister of Finance. The entry into force of the legislative provisions is planned to be postponed for 1 year (planned to apply from 2023). The Fund Board intends to develop a centralised accounting model for the Fund, with a single set of financial reports of the Fund's resources, with the cumulative and current year's result accounted for according to the different types of social security (Section 2, p.p. 16–17).

## 3. The Fund's performance was affected by the pandemic but remained positive

In 2020, the State Social Insurance Fund Board implemented three measures in the Economic Stimulus and Coronavirus (COVID-19) Consequences Mitigation Plan to help preserve jobs and people's incomes, as well as three measures to help preserve liquidity for businesses. The Fund Board used EUR 322.8 million of the State budget funds to pay benefits under the measures aimed at preserving jobs and personal income. As part of the measures aimed at preserving the liquidity of businesses, payments of contributions to the State Social Insurance, Compulsory Health Insurance, Long-Term Employment Benefits and Guarantee Funds were postponed in a simplified manner for 5.7 thousand businesses, amounting to EUR 118.7 million, and the collection of tax arrears was suspended during the period of the quarantine and for the two months thereafter, and interest and fines were not charged. Our assessment of the implementation of these measures found no breaches of the legislation. Despite lower than planned contributions from insured persons and policyholders and higher than planned expenditure, the Fund's budget outturn for 2020 remained positive at EUR 274.1 million (planned outturn of EUR 344.3 million) (Sub-section 3.1, p.p. 17–18).

## 4. The State's assumption of liabilities in excess of social security contributions for social assistance benefits does not ensure that they are financed from the State budget

There are no general principles of state social insurance that distinguish it from the rest of the social security system, and the existing regulation allows the State Social Insurance Fund to pay benefits that have the characteristics of social assistance, provided that the cases of such benefits are defined by the law. The legal framework has been improved as a result of a recommendation made by the National Audit Office in 2017, however, the social insurance system remains undetailed. The Ministry of Social Security and Labour is preparing amendments to the Law on State Social Insurance, which will propose detailing the concept of this insurance and defining the principles on the basis of which the sources of financing of benefits will be determined (Sub-section 3.2, p.p.19–20).

## 5. In the event of an annual imbalance between a part of the social security contributions and benefits, the financing gap is compensated for by the income from the types of insurance with a positive result

According to the 2021 budget plan of the State Social Insurance Fund and forecast calculations for 2021–2023, a shortfall of EUR 53.9 million is projected for 2021 for maternity and unemployment social insurance benefits. The imbalance between income and benefits by type of insurance leads to shortfalls in the use of contributions paid for insurance types where income is higher than expenditure (e.g. pension, sickness social insurance). The Ministry of Social Security and Labour, implementing the National Audit Office's 2017 recommendation, envisages that the issues of balancing individual types of social insurance will be dealt with by the existing Working Group for the Review of Tax Reliefs, after the adoption of the decisions on the taxation of the self-employed as well as on the provision of other social insurance benefits. The actions taken by the Fund Board to implement the recommendation made to it in 2017 to improve the accounting keeping in order to have data on the cumulative result by type of social insurance (planned from 2024) are also relevant for the decisions on the rebalancing of the social security contributions and benefits (Sub-section 3.3, p.p. 20–22).

## 6. The administration of debts owed to the State by individuals that do not pay child maintenance payments has room for improvement

More than 37,000 people owed EUR 173 million in child maintenance to the State in 2020. If all debtors were to repay the amounts paid by the State to their children, and if the level of benefits was to be maintained at the same level as in recent years, these funds would be sufficient to cover ten years of benefits payments. Where child maintenance debts cannot be recovered, they can be written off, but in most cases, only amounts that cannot be recovered due to the death of the debtor are considered to be bad debts, while other criteria laid down in the legislation (e.g. limitation period, the insignificance of the debt, the individual's difficult economic/social circumstances) are not assessed. We recommended that the Fund Board assess the bad debts of receivables from debtors and applicants according to the criteria set out in the legislation and make the necessary accounting entries in the reports (Sub-section 3.4, p.p. 22–23).

## 7. Risk to the Fund due to not received additional pension cumulative contributions remains

The volume of policyholders' liabilities for not transferred additional pension contributions to the Fund is increasing: at the end of 2020, it amounted to EUR 2.2 million and was almost 5 times higher than in 2019. The increase is also due to the fact that policyholders had the right to defer their contributions for up to 5 years due to the negative impact of COVID-19, and enforcement measures were not applied to recover policyholders' outstanding amounts.

The Ministry of Social Security and Labour has initiated amendments to the legislation in order to regulate the priority of crediting of contributions to pension saving companies, as part of the implementation of the recommendation made to the Ministry in the 2020 audit. The source of transfer of contributions in cases where policyholders fail to pay contributions on time is not yet regulated. The Ministry informed that it plans to initiate amendments to the legislation to ensure that, in cases where additional pension contributions accrued but not paid can no longer be recovered, they will be financed by the State budget (Sub-section 3.5, p.p. 23–24).



## 8. The function of monitoring the validity and regularity of the determination of disability, temporary incapacity for work entrusted to the Fund's administration bodies has not been carried out in 2020

From 2019, the State Social Insurance Fund Board is entrusted by the Law on State Social Insurance with the task of organising and carrying out checks on the validity and regularity of the determination of the level of disability, temporary incapacity for work or the level of incapacity for work, the reason for it, the time of its occurrence, or the time of its term. This function has not been taken up by the Fund's administration bodies in 2019 and will not be carried out in 2020.

In 2020–2021, the revised legal regulation introduced the possibility for the SSSF's administration bodies to conclude service contracts with personal health care institutions for the performance of this function without the application of the provisions of the Law on Public Procurement, and changed the procedure of payment for the services provided. The Fund Board re-sent invitations to medical institutions to conclude contracts in July 2021 (Sub-section 3.6, p.p. 24–25).

## 9. Fund's management structure is being optimised

In order to optimise the Fund's activities and simplify its management structure, in 2018 we submitted a recommendation to the Ministry of Social Security and Labour to merge the Fund's 13 existing administration bodies into one legal entity. The recommendation was partially implemented: two institutions were reorganised by merger in 2020 and six in 2021. The SSDF Board and four branches (in Kaunas, Panevėžys, Klaipėda, and Vilnius) continue their activities. A cost-benefit analysis of the reorganisation of the Fund Board and the territorial branches into a single legal entity is foreseen in 2022 and a decision on further optimisation actions is to be taken (Sub-section 3.7, p. 25).

## Recommendations

During the audit, we made two recommendations to the State Social Insurance Fund Board to improve the administration and accounting of child maintenance payments, which the Board committed to implement in 2022. In order to have reliable data in the financial reports and to optimise the Fund's operations, it is important to implement the recommendations made by the previous audits of the assessment of the State Social Insurance Fund's regularity of 2017–2020 sets of consolidated financial and budget execution reports and the legality of management, use and disposal of its funds and property. The status of implementation of the recommendations of the public 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).