NATIONAL AUDIT
OFFICE OF LITHUANIA

PUBLIC AUDIT REPORT

ASSESSMENT OF REGULARITY OF 2020 SETS OF FINANCIAL AND BUDGET EXECUTION REPORTS AND LEGALITY OF MANAGEMENT, USE AND DISPOSAL OF FUNDS AND PROPERTY OF THE RESERVE (STABILISATION) FUND

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The National Audit Office supervises the legality and efficiency of the management and use of State property and the execution of the State budget. By providing audit observations and recommendations, the National Audit Office promotes a positive and effective impact of public audit on the public financial management and control system, as well as on the public administration oriented towards results and the public needs. For more information on the activities of the National Audit Office and the results of the public audit, see www.valstybeskontrole.lt.

The audit was carried out by Rūta Stasiūnaitė (since 03/09/2021), Asta Stalauskienė (until 08/09/2021).

Public Audit Report has been submitted to the Seimas of the Republic of Lithuania, the Government of the Republic of Lithuania, and the Ministry of Finance of the Republic of Lithuania.

CONTENTS

INTRODUCTION

Objective and Scope of the Audit

In accordance with the Law on National Audit Office[1] and Law on Public Sector Accountability[2], we have carried out an audit of the regularity of the 2020 sets of financial and budget execution reports and the legality of the management, use, and disposal of funds and property of the Reserve (Stabilisation) Fund. The audit was carried out in accordance with International Standards on Auditing and International Standards of Supreme Audit Institutions. The audit report presents only the matters performed and identified in the course of the audit and the independent opinions on the Fund's financial and budget execution reports are expressed in the auditor's report.

The scope of the audit and the applied methods are described in more detail in the Annex to the Report "The Scope and Methods of the Audit" (p.p. 11–12).

Purpose of the Reserve (Stabilisation) Fund

Reserve (Stabilisation) Fund is a State monetary fund, the purpose of which[3] is to accumulate the State's monetary resources needed to finance the State budget expenditures in accordance with the procedure laid down by the Constitutional Law on the Implementation of the Fiscal Treaty of the Republic of Lithuania, where exceptional circumstances[4] have been established and declared in accordance with the procedure laid down by law, for the installation of a deep repository for radioactive waste, for the management of radioactive waste and for the (repayable) fulfilment of the State's property obligations relating to the public debt, the implementation of European Union policies and/or related treaties or agreements.

According to the Law on Public Sector Accountability[5], the Fund is a public sector entity managed by the Ministry of Finance[6]. The accounting of the Fund is kept by the Ministry, as an appropriation manager, separately from its own accounting[7]. The financial statements of the Fund are prepared in accordance with the Law on Public Sector Accountability[8] and the Public Sector Accounting and Financial Reporting Standards, and the report on the implementation of the Fund's estimates is prepared in accordance with

[1] Law on National Audit Office, Article 8(2)(4) (Article 9(3)(4) of the Law in force until 1 July 2021).

[2] Law on Public Sector Accountability, Article 30(2)(4).

[3] Regulations of the Reserve (Stabilisation) Fund approved by the Seimas Resolution No IX-912 of 30 May 2002, p. 2.

[4] The quarantine has been declared as of 16 March 2020 by Government 14/03/2020 Resolution No 207 "On the Declaration of Quarantine in the Territory of the Republic of Lithuania".

[5] Law on Public Sector Accountability, Article 2(19) and Article 2(22)(6).

[6] Regulations of the Reserve (Stabilisation) Fund, p. 4

[7] Ibid, p. 19

[8] Law on Public Sector Accountability, Article 19(1), Article 19(2), Article 21(1) .

the Rules [9] on the Establishment of Budget Execution Reports of Resource Funds. The Ministry of Finance submits a set of reports to the Government by 1 October, which, after approving the set, submits it to the Seimas[10] by 10 October. The National Audit Office submits a public auditor's report and a public audit report on the audited sets of financial and budget execution reports to the Government by 1 October and to the Seimas by 10 October at the latest[11].

The sources of the Fund's generation are 50% of the receipts from the State budget:

- funds from the privatisation of the shareholdings owned by the State in accordance with the law;
- dividends;
- funds from the sale of State immovable property and other objects of immovable property by public auction in accordance with the law;
- funds from the sale of State land parcels.

The Fund may also receive transfers of the surplus State budget and other appropriations provided for in the Law on Approval of Financial Indicators of the State Budget and Municipal Budgets for the relevant year, funds from the sale of the property of the State Enterprise Ignalina Nuclear Power Plant for the installation of a deep repository for radioactive waste and its management, income from the investment of the Fund's resources or from the Fund's bank balances, other funds legally received (no such funds were received and transferred to the Fund in 2020).

[9] Minister of Finance' Order No 1K-461 of 16 December 2014 on the Approval of the Rules on the Establishment of Budget Execution Reports of Resource Funds.

[10] Law on Public Sector Accountability, Article 32(6)(1) and Article 32(7).

[11] Law on Public Sector Accountability, Article 30(3).

AUDIT RESULTS

1. THE SET OF BUDGET EXECUTION REPORTS IS CORRECT IN ALL MATERIAL RESPECTS, A LIABILITY WAS NOT REPORTED IN THE SET OF FINANCIAL STATEMENTS

1. We found no misstatements in Reserve (Stabilisation) Fund's sets of budget execution reports and no irregularities in the legality of the management, use and disposal of its funds and property and their use for the purposes laid down by law.

2. From 2020, a separate account in the Reserve (Stabilisation) Fund is used to ensure the financing of the project for the installation of a deep repository for radioactive waste and its management (at the end of the year, EUR 25.6 million accumulated), i.e. funds are earmarked to finance a provision for a deep repository project set up by the Ministry of Energy. Pursuant to the Public Sector Accounting and Financial Reporting Standard 20[12], the accounting of the Reserve (Stabilisation) Fund had to register in its reports an obligation to use the accumulated funds to finance the repository[13]. This obligation is not disclosed in the set of financial reports.

3. The Reserve (Stabilisation) Fund is a resource fund and is required to produce a separate set of reports under the Law of Public Sector Accountability[14], however, the Fund is essentially a bank account for the accumulation of the State reserve and the funds earmarked for the installation of a deep repository for radioactive waste, and the source of funding for these accounts is the State budget and the proceeds from the sale of the assets of the State Enterprise Ignalina Nuclear Power Plant. In addition, the estimates for this fund are adopted together with the financial indicators of the State budget (the same law adopting the indicators). Therefore, the requirement to draw up a separate set of annual reports for this fund is redundant and creates an additional administrative burden. In order to simplify the processes of accounting and accountability, it would be sufficient to disclose the Fund's data in the set of the State consolidated reports. Correspondingly, public sector entities – the State Social Insurance Fund, the Compulsory Health Insurance Fund – hold reserves, which are disclosed in the sets of consolidated reports of these funds.

[12] SPSAFR 20 Financing Amounts, paragraph 31 "The grantor of a financing amount shall, on receipt of a certificate, report other current liabilities (accrued payables or accrued finance costs) and financing costs or financing amounts transferred."

[13] The entity incurring the cost reports the amount of the cost incurred as an accrued receivable (accrued finance income) and as finance income in accordance with paragraphs 12 and 13 of SPSAFR 20, and shall provide a statement to that effect to the public sector entity, which will provide/transfer the funds to reimburse those costs in the next accounting period. The Fund's accounting keepers informed (20/09/2021 letter No ((3.57Mr-02)-5K-2115349)-6K-2105519) "Concerning the Draft Public Audit Report") that they had not received this information.

[14] Law on Public Sector Accountability, Article 32(6) (version of 20/12/2013).

2. IN 2020, THE RESERVE (STABILISATION) FUND WILL ACCUMULATE EUR 87.9 MILLION LESS THAN PLANNED

4. To ensure timely financing of the Ignalina Nuclear Power Plant's deep repository project and radioactive waste management and implementation of the provisions of the Directive, and in order to avoid an increase in the cost of management of long-lived radioactive waste, the Ministry of Energy has drafted amendments to the relevant legal acts in 2019[15]. They proposed to accumulate the funds for the installation of the repository in the Reserve (Stabilisation) Fund, with 25% of the dividends transferred to the State budget being transferred annually to a separate fund account. While performing the 2019 audit[16], we proposed that these amendments to legal acts would slow down the accumulation of funds in the Reserve (Stabilisation) Fund.

5. In November 2020, the Seimas adopted a different decision[17] on the financing mechanism for the installation of a deep repository than the one proposed by the Ministry in draft legislation: The amendment to the provisions of the Reserve (Stabilisation) Fund stipulates that, as of 1 December 2020, the Fund's resources include the proceeds from the sale of the property of the State Enterprise Ignalina Nuclear Power Plant. These funds will be accumulated in a separate fund account for the installation of a deep repository for radioactive waste and for radioactive waste management. Taking into account the need for funds for the installation of this repository and the management of radioactive waste, the Ministry of Finance will have to foresee in the draft estimate of the Fund's resources at least EUR 3 million annually (from 2021 onwards) for the accumulation of funds for these purposes. It will also receive 25% of dividends received by the State budget in the event of a situation where the actual level of government debt in the last preceding year exceeds 45% of gross domestic product and/or the weighted average interest rate on government borrowing on behalf of the State for the most recent preceding year exceeds a nominal level of 6%, and the resources for the Reserve are not accumulated in the Fund for the current year.

6. The proceeds from the sale of the property of Ignalina Nuclear Power Plant have in recent years been less than the minimum amount to be accumulated, under the Reserve (Stabilisation) Fund Regulations (in 2019, amounted to EUR 0.99 million, half the amount of the previous year: in 2017–2018, proceeds from the sale of property amounted to around EUR 1.9 million annually[18]). The National Audit Office, which audited the decommissioning process of the Ignalina Nuclear Power Plant in 2021[19], pointed out that the need for funds

[15] Draft Law No XIIIP-4106 to amend Article 10[1] of Law on State Treasury No I-712 and Seimas Draft Resolution No XIIIP-4114 amending the 30/05/2002 Seimas Resolution No IX-912 on the approval of the regulations of the Reserve (Stabilisation) Fund.

[16] Internet access: https://www.valstybeskontrole.lt/LT/Product/23945/rezervinio-stabilizavimo-fondo-2019-metu-finansiniu-ir-biudzeto-vykdymo-ataskai (accessed on 15/06/2021).

[17] Seimas 10/11/2020 Resolution No XIII-3435 on the amendment of the Seimas 30/05/2002 Resolution No IX-912 on the approval on the regulations of the Reserve (Stabilisation) Fund.

[18] 01/10/2020 Report No FAE-4 "Assessment of the Regularity of 2019 Sets of Financial and Budget Execution Reports and Legality of Management, Use and Disposal of Funds and Property of Ignalina Nuclear Power Plant Decommissioning Fund"

[19] Internet access: https://www.valstybeskontrole.lt/LT/Product/24003/ignalinos-atomines-elektrines-eksploatavimo-nutraukimo-procesas (accessed on 15/06/2021).

for the installation of a deep repository amounts to an average of EUR 42.7 million annually. This may therefore require additional sources of funding in the future.

7. In order to finance the COVID-19 related borrowing support measures and to stimulate the economy, a decision [20] was taken not to accumulate funds in the Reserve (Stabilisation) Fund for the purpose of safeguarding the stability of the State as from 1 May 2021, once the effective level of government debt exceeds 45% of GDP in 2020, except for the funds accumulated for the installation of a deep repository for radioactive waste and radioactive waste management. The revised 2021 budget of the Fund foresees an allocation of EUR 16.5 million for this purpose (EUR 1.5 million from the sale of the property of the State Enterprise Ignalina Nuclear Power Plant, and EUR 15.0 million from the sale of the property of the State Enterprise Ignalina Nuclear Power Plant, and EUR 15.0 million – 25 % of the dividends paid to the State budget as from 1 May 2021)[21].

8. At the beginning of 2020, the Reserve (Stabilisation) Fund had accumulated EUR 286.4 million, or 0.6% of GDP. During the pandemic, all resources of the Fund (EUR 289 million)[22] were loaned to the State to meet its obligations, leaving EUR 0.6 million in the Fund's account on 31 March 2020. The amount borrowed by the State was returned to the Fund in July[23].

9. The size of the Reserve (Stabilisation) Fund at the end of 2020 was EUR 356.9 million, or 0.8% of GDP (EUR 87.9 million less than planned). In 2020, there were EUR 46.8 million less revenue than planned. According to the approved budget of the Fund for 2020, EUR 25.6 million of this amount has been transferred to the account "Reserve Fund's Resources Accumulated for the Installation of a Deep Repository for Radioactive Waste and Radioactive Waste Management" (25% of the dividends paid to the State budget)[24] (Table 1).

Table 1. Implementation of the estimates for the Reserve (Stabilisation) Fund for 2019–2020

Title of the Article	2020		2019	
	plan	execution	plan	execution
Fund's balance at the beginning of the reporting period (EUR million)	328.4	286.4	257.2	230.9
Revenue (EUR million)	118.4	71.6	97.8	56.5
Fund's balance at the end of the reporting period (EUR million)	444.8	356.9	353.7	286.4
Balance compared to GDP, %		0.8		0.6

[20] Minister of Finance's 03/05/2021 Order No 1K-155 on the accumulation of funds in the Reserve (Stabilisation) Fund.

[21] Internet access: (https://www.infolex.lt/ta/702332#Xb020d727b8ab47688e854426a29f5a38) (accessed on 28/06/2021).

[22] Short-term financial receivables as at 30 June 2020 amount to EUR 289 million. This amount was transferred to the State Treasury's main account on 23/03/2020 and is earmarked for the State's public debt obligations (repayable) until 31/12/2020. Internet access: https://finmin.lrv.lt/uploads/finmin/documents/files/AR%20su%20priedu%202020_06_30.pdf.

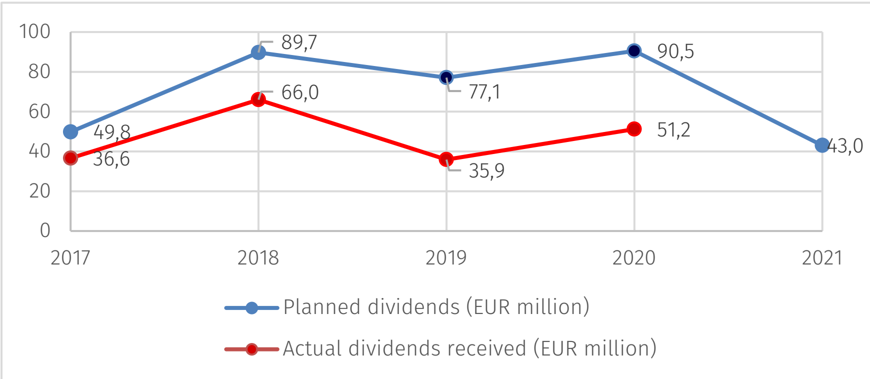
[23] 01/10/2020 Report No FAE-3 "Assessment of Regularity of 2020 Sets of Financial and Budget Execution Reports and the Legality of Management, Use and Disposal of Funds and Property of the Reserve (Stabilisation) Fund".

[24] The Fund's estimates for 2020 were adopted without any changes to the provisions governing the Fund's performance.

Source: National Audit Office based on data from the Report on the Implementation of the Estimates of the Reserve (Stabilisation) Fund for 2020

10. The main source of the Fund's resources is 50% of the dividends received from the State budget, which account for 76.4% of the Fund's total revenue. The plan of this revenue has not been performed for the last four years (Figure 1). In 2020, there were EUR 39.3 million less of dividends than planned.

Fig. 1. Dividends in 2017–2021



Source: National Audit Office based on data from the Reports on the Implementation of the Estimates of the Reserve (Stabilisation) Fund for 2017–2020

11. The amount planned to be received by the State budget from dividends was not received due to planned financial transactions between state-owned energy companies that did not materialise. Also in 2020, legislative changes[25] (the conditions under which the Government may set a lower rate of dividend payout for companies where there is a real risk of the company becoming insolvent as a result of the payment of dividends due to war, emergency, mobilisation, quarantine, emergency, or restriction of activities during an emergency) introduced due to the COVID-19 situation in the country reduced the dividends paid by state-owned companies to the State budget. After the amendment to this resolution entered into force in early May 2020, the proposal to set the share of profit allocated to Lithuanian Exhibition and Congress Centre LITEXPO and State Enterprise Lithuanian Airports at a level lower than that set for the payment of dividends was approved.

12. The Fund received EUR 2.3 million less than planned for privatised state-owned shareholdings under the law, as the privatisation of AB Vilnius Metrology Centre, planned for 2020, has been forwarded to 2021.

13. Amendments to legislation were adopted in 2018 (their provisions apply to the drafting of laws on the approval of financial indicators for the State budget and municipal budgets of the Republic of Lithuania for 2019 and subsequent years), to provide for an additional source of funding for the Fund - income from the sale of state-owned land (not only agricultural land). In 2020, this source of revenue will generate EUR 14.1 million, i.e. EUR 4.9 million less than planned, due to the non-adoption of the legislation under the

[25] Government 29/04/2020 Resolution No 444 amending the Government of the Republic of Lithuania 14/01/1997 Resolution No 20 on the dividends on State-owned company shares and profit contributions from State-owned enterprises.

Ministry of Agriculture, related to the construction of new buildings and the change of the main land use and (or) the manner of use of State land leased not by the auction, as well as to the regulation of the concept of a state land parcel located in between other land parcels. The lower revenues were also due to fewer land sales due to the COVID-19 pandemic.

14. The problem of the Reserve (Stabilisation) Fund not meeting its revenue plan has been addressed each year[26], which indicates that the selected sources of financing are not sustainable. The government programme foresees[27] the development of a strategy for the management of government debt, with the aim of returning to an optimal level of debt in the long term. The Ministry of Finance plans to have this strategy in place by Q2 2022[28]. We believe that the issues of the public funds reserve – the target level, sources of funding, etc. – should also be comprehensively reviewed as part of its preparation.

Auditor General Mindaugas Macijauskas

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[26] Public audit reports: 01/10/2020 No FAE-3, 30/09/2019 No FA-5, 01/10/2018 No FA-2018-P-6-1-5-1.

[27] Seimas 11/12/2020 Resolution No XIV-72 “On the Programme of the Eighteenth Government of the Republic of Lithuania”, p. 220.4.

[28] Government 10/03/2021 Resolution No. 155 “On the Approval of the Implementation Plan for the Provisions of the Eighteenth Government Programme of the Republic of Lithuania”, Action No. 10.2.12.