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 LONG-TERM EMPLOYEE BENEFITS FUND

01 October 2021

No. FAE-10

The National Audit Office monitors 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 governance oriented towards results and the public's 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 Rita Švedienė (team leader from 14/06/2021), Rita Aniukštytė (team leader till 30/06/2021), Vilmantė Krogertienė, Jolanta Morozovienė, and Rasa Guobienė.

Public Audit Report has been submitted to the Seimas of the Republic of Lithuania, the Government of the Republic of Lithuania, the Ministry of Social Security and Labour, and the State Social Insurance Fund Board.

CONTENTS

INTRODUCTION

Objective and Scope of the Audit

Pursuant to the Law on National Audit Office [1] and the Law on Public Sector Accountability[2], we have carried out an audit of the 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 Long-term Employee Benefits Fund. The audit has been performed in accordance with the Public Auditing Requirements[3], International Auditing Standards, and International Standards of Supreme Audit Institutions. The audit report presents only the matters identified in the course of the audit and the independent opinion on the Fund's financial and budget execution reports are expressed in the audit opinion. The scope and methods of the audit are described in greater detail in Annex "Audit Scope and Methods" (p.p. 9–11).

Purpose of the Long-term Employee Benefits Fund

The Long-term Employee Benefits Fund was established in 2017, its purpose – to ensure additional financial guarantees to individuals, who have been dismissed pursuant to Article 57 of the Labour Code (on the initiative of the employer without any fault on the part of the employee) and who have had an employment relationship with the employer for more than five years[4]. The Fund is administered by the State Social Insurance Fund Board (hereinafter – SSIFB) and by other bodies[5] administering the Fund, which, in accordance with the procedure laid down in the Regulations, takes decisions on the granting and payment of long-term employee benefits and carries out the other functions of the Fund's administration assigned to them[6].

The Fund's resources in 2020 were used in accordance with the Fund's budget approved by the Seimas[7]. The Ministry of Finance is responsible for the management of the temporarily available resources of the Fund and for making investment decisions[8].

In accordance with the Law on Public Sector Accountability[9], this Fund is a public sector entity, financial reports of which are prepared in accordance with this Law[10] and the Public Sector Accounting and Financial Reporting Standards, and the report of the execution of

[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) and Article 30(3).

[3] Approved by the Auditor General's Decree No V-26 of 21/02/2002 (was in force till 30/06/2021).

[4] Laws on Guarantees for Employees in the Event of Employer Insolvency and Long-term Employee Benefits, Article 9 and Article 13.

[5] Ibid., Article 13(2) .

[6] Ibid., Article 19.

[7] Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2020, Article 18.

[8] Laws on Guarantees for Employees in the Event of Employer Insolvency and Long-term Employee Benefits, Article 14. Article 11(4).

[9] Article 2(19) and Article 2(22)(6).

[10] Ibid., Article 19(1) and Article 19 (2), Article 21(1) .

the estimate is prepared in accordance with the Rules for the Establishment of the Set of Budget Execution Reports of Resource Funds[11].

The Fund's annual set is to be submitted to the Government by 1 October of the following year at the latest, which submits it to the Seimas by 10 October at the latest, after approving it. The National Audit Office submits a public audit opinion and an audit report on the audited sets of financial and budget execution reports to the Government by 1 October and the Seimas by 10 October at the latest[12].

[11] Order of the Minister of Finance No 1K-461 of 16/12/2014.

[12] Law on Public Sector Accountability, Article 30(3), Article 30(6) and Article 30(7).

AUDIT RESULTS

1. ASSESSMENT OF THE FUND'S SETS OF REPORTS

1.1. The set of financial reports contains material misstatements of data: the Fund's receivables are not accurately stated

1. Public sector entities are required to keep accounting in accordance with the Law on Public Sector Accountability and Public Sector Accounting and Financial Reporting Standards (hereinafter – PSAFRSs). In accordance with the requirements of the PSAFRS 26[13], receivables are classified into long- and short-term receivables based on the period of settlement and are reported under the following Articles: "Financial Fixed Assets" if they will be paid within one year and "Taxes and Social Contributions Receivable" if they will be paid within one year. We found that all contributions receivable from employers were classified as receivable within one year due to incorrect accounting[14], even though part of them (EUR 633 thousand) will be received one or more years later. For this reason, the Fund's statement of financial position as of 31/12/2020 does not show a balance of EUR 633 thousand in Article A.III "Financial Fixed Assets", and the balance shown in Article C.III.2 "Taxes and Social Contributions Receivable" (EUR 5,558.1 thousand) is higher by the same amount. The misstatements identified are material to the assessment of the fairness of the data in the Fund's set of financial reports for 2020. During the audit, we received information[15] that receivables within one year and receivables after one year will be reported separately in the accounting in 2021.

2. Compared to 31/12/2019, the Fund's balance of receivables as of 31/12/2020 has increased by more than 60% (from EUR 3,393.2 to EUR 5,558.1 thousand). In accordance with the requirements of the PSAFRS 6[16], the explanatory note should state the reasons if the amounts of Articles in the financial reports have changed materially from the previous reporting period. The reasons for the significant increase in the balance of receivables are not disclosed in the explanatory note to the Fund's 2020 set of financial reports. The main contributor to the increase in receivables was the tax aid measures[17] imposed on economic entities that have suspended or restricted their activities due to the quarantine declared by the Government: The SSIF Board could postpone the payment of contributions

[13] "Accounting and Set of Financial reports of the Resources Fund", p. 12.3 and p.13.3.

[14] Employers make contributions to the funds (SSI, Compulsory Health Insurance, Long-Term Employee Benefits and Guarantee) using the same contribution code, therefore at the end of each quarter, the SSIF Board distributes to the funds and provides them with data on amounts receivable. Due to software settings, the SSIF information systems do not distinguish the long-term portion of the receivables from policy holders for the individual funds. As a result, the SSIF Board provides the Compulsory Health Insurance Fund, the Long-Term Employee Benefits Fund and the Guarantee Fund with data on their receivables without distinguishing the long-term portion of the receivables (for these reasons, the data of the sets of these funds has misstatements).

[15] Reply from the SSIF Board dated 28/07/2021 by e-mail regarding the accounting of amounts to be transferred to the Compulsory Health Insurance Fund, the Guarantee Fund and the Long-Term Employee Benefit Fund.

[16] "Explanatory note to the Financial Reports", p. 15.

[17] Economic Stimulus and Coronavirus (COVID-19) Consequences Mitigation Plan (Minutes of the Government Meeting No 14 of 16/03/2020), as amended.

for up to 5 years in a simplified procedure for applicants[18].

[18] The information provided by the SSIF Board by e-mail dated 14/04/2021 indicates that on 31/12/2020 the payments of contributions to the Funds of Long-Term Employee Benefits, Guarantee, Compulsory Health and State Social Insurance have been postponed for 5.7 thousand economic entities, the total amount of the postponed contributions amounting to EUR 118,698.5 thousand.

1.2. The set of budget execution reports is correct in all material respects

3. In 2020, the Fund received revenue of EUR 23,453.4 thousand and incurred expenditure of EUR 9,976.2 thousand. The total revenue consisted of contributions paid by employers (excluding budgetary institutions and the Bank of Lithuania) - 0.16% of the employment-related income calculated for employees. The Fund's set of budget execution reports as of 31/12/2020 is correct in all material respects, however, not all of the information required to be disclosed is disclosed in the explanatory note to the above-mentioned set.

4. In accordance with the requirements of the Rules on the Establishment of the Set of Budget Execution Reports of Resources Funds[19], one of the objectives of the establishment of the set is to indicate the reasons for any non-execution and/or significant variances in the implementation of the estimates for the resources fund, in comparison with the approved estimates and with the execution of the estimates for the previous reporting period. This information has to be presented in the explanatory note to the set. According to the 31/12/2020 data from the Fund's set of budget execution reports, the Fund's revenue, expenditure and fund balance targets have not been met, and its explanatory note does not disclose the reasons for the non-execution of the estimates. The main deviation from the revenue plan was that the Fund's actual received amounts (employers' contributions) amounted to EUR 23,453.4 thousand, which was 10.7% lower than the planned amount (EUR 26,260.0 thousand) and 22.8% lower than the actual contributions received in 2019 (EUR 30,383.7 thousand). The main contributing factor to the decline in employers' contributions has been the Government's tax aid measures[20], which have given economic entities the right to defer the payment of contributions. The disclosure of the reasons for non-execution or significant changes in the execution of estimates in the explanatory note to the set of reports is an important source of information for users of these reports who analyse the performance of the Fund and make decisions about the Fund's activities.

2. NEW REQUIREMENTS WILL BE APPLIED TO THE PREPARATION OF THE FUND'S ESTIMATE AND SET OF REPORTS

5. In order to harmonise the application of the provisions of the legal acts regulating the activities of the Long-Term Employee Benefits Fund and the Guarantee Fund and their administrator, we have recommended to the Ministry of Social Security and Labour[21] to

[19] Minister of Finance' 16/12/2014 Order No 1K-461 on the approval of the rules on the establishment of the set of budget execution reports of resource funds, p. 5.4. and p. 13.

[20] Economic Stimulus and Coronavirus (COVID-19) Consequences Mitigation Plan (Minutes of the Government Meeting No 14 of 16/03/2020), as amended.

[21] 30/09/2019 Public Audit Report No FA-2 "Assessment of Regularity 2018 Sets of State Consolidated Financial and Budget Execution Reports and Legality of Management, Use and Disposal of Funds and Property of the State Social Insurance Fund".

initiate amendments to the legal acts in order to ensure that the budgets of these funds are adopted in conjunction with the budget of the State Social Insurance Fund (SSIF) and to assess whether the application of identical principles is being applied to the formulation of their budgets. The recommendation was partially implemented: amendments[22] to the Laws on Guarantees for Employees in the Event of Employer Insolvency and on Long-Term Employee Benefits and the Law on Public Sector Accountability were adopted on 01/10/2020, introducing new principles for the preparation of the estimates and sets of reports of the Guarantee Fund and of the Long-Term Employee Benefits Fund. Drafts of estimates and sets of reports will be prepared on an accrual basis and will be presented to the Seimas for approval together with the draft law on the approval of the SSIF budget indicators for the respective year[23]. The specific requirements for the composition of the set of annual reports of the funds and the requirements for the funds' reports are still to be determined by the Minister of Finance. We will consider the recommendation implemented once the draft budgets and annual reports for these funds are prepared in accordance with the new legislative provisions, which are proposed to be postponed from 2022 to 2023.[24]

3. FUND'S RESOURCES HAVE BEEN USED LAWFULLY

6. Our assessment of the Fund's use of its resources for the payment of benefits has not revealed any irregularities in terms of legality, as the decisions to grant or not to grant benefits were taken in accordance with the legislation. During the audit, we drew the attention[25] of the SSIF Board to the fact that the procedure laid down in the legislation[26] for persons to apply for a benefit (a person's application is required) differs from the one that is applied in practice (the benefit is granted without an application on the basis of the data accumulated in the SSIF information systems). In order to bring the provisions in the legislation in line with the current practice, the SSIF Board has envisaged revising the procedure for applying for a benefit as specified in the Fund's regulations.

7. Since the establishment of the Fund, less than half of the total annual contributions have been used to pay benefits, which has led to a year-on-year increase in the Fund's balance, which has increased 6 times compared to 2017 and amounted to EUR 94,548.1 thousand at the end of 2020. The Fund is projected[27] to increase by a further EUR 15,768.0 thousand to EUR 111,507 thousand in 2021 (Figure 1).

[22] Law amending Articles 19, 20 and 21 of the Law on Guarantees for Employees in the Event of Employer Insolvency and on Long-Term Employee Benefits No XII-2604; Law amending the Law on Public Sector Accountability No X-1212.

[23] Currently, estimates are prepared using the cash accounting principle and are set out in the Law on Financial Indicators of the State Budget and Municipal Budgets for the respective year.

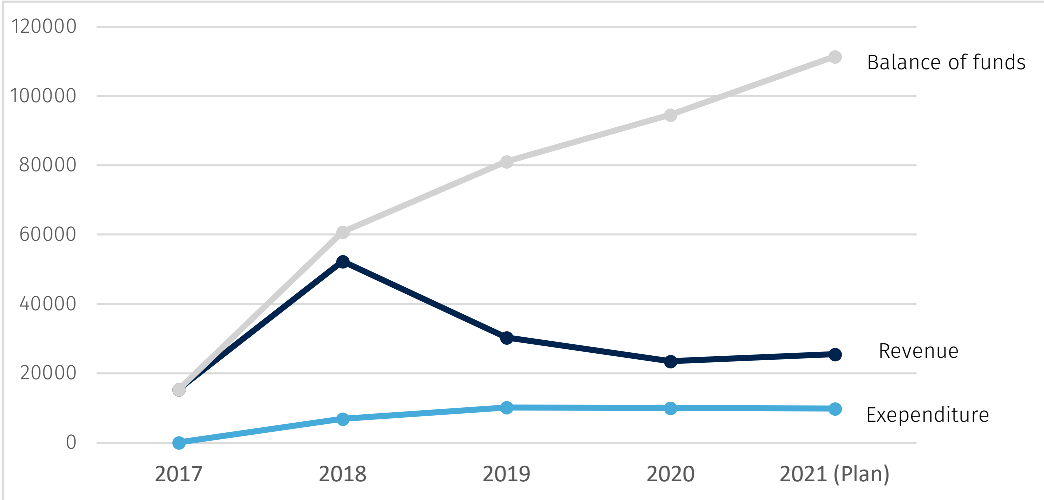
[24] The Law amending Articles 1 and 2 of the Law on Public Sector Accountability No. X-1212 (Draft No 21-29326 of 1 September 2021 has been submitted to the authorities concerned for coordination) plans to postpone its entry into force and application for one year, until 1 January 2023.

[25] 23/06/2021 Letter No SD-(6-9.1.1-E-6082)-611 concerning the results of the audit of the Long-Term Employee Benefits Fund.

[26] Regulations of the Long-Term Employee Benefits Fund approved by Government Resolution No 576 of 5 July 2017, p. 5, 6, 14 and 15.

[27] Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2021, Annex 10.

Fig 1. Fund's revenue, expenditure, and balance, EUR thous.



Source: National Audit Office, based on data from the reports on the implementation of the estimates of the Long-Term Employee Benefits Fund for 2017–2020 and the approved estimates for 2021.

8. At the end of 2020, part of the Fund's resources (EUR 52,000 thousand) were invested in fixed-term deposits, while part of the Fund's resources was kept in banks (EUR 37,197 thousand in the Bank of Lithuania, EUR 5,351.1 thousand in Luminor). Due to the fact that the financial market has been dominated by close to zero or negative interest rates for a number of years to date, the Fund has incurred a cost of EUR 146.7 thousand in 2020 for holding and investing funds in banks. The rules on the management of the State's monetary resources[28] do not regulate the management of the Long-Term Employee Benefits Fund. We recommended[29] that the Ministry of Finance, which is responsible for the management and investment of the temporarily available funds, should regulate this. The Ministry earmarked to implement the recommendation by Q3 2021.

Auditor General Mindaugas Macijauskas

[28] Order of the Minister of Finance No 1K-417 of 7 December 2012, Section 3-1.

[29] National Audit Office's 04/06/2021 Letter No SD-(6-9.1.1-E-6077)-512 on the results of the public audit (on borrowing on behalf of the State and on investments).