VALSTYBĖS KONTROLĖ
PUBLIC AUDIT

RESULTS OF FINANCIAL AUDIT OF 2021 SET OF NATIONAL FINANCIAL REPORTS AND DATA OF PUBLIC DEBT

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No FAE-5

SUMMARY

Objective and Scope of the Audit

In accordance with the Laws on National Audit Office, Public Sector Accountability and National Debt, we carried out an audit of the 2021 set of national financial reports and data of public debt.

The audit has been performed in accordance with International Standards on Auditing and International Standards of Supreme Audit Institutions. The scope and methods of the audit are described in greater detail in Annex 2 *Audit Scope and Methods* (p. 26). The audit report includes only the matters performed and identified during the audit, and independent opinion on the consolidated set of financial reports is presented in the audit summary.

Key Results of the Audit:

1. Misstatements in the set of financial reports are material and pervasive

For ten consecutive years (since the very beginning of its preparation), we have identified material misstatements in the national set of financial reports: it does not present the true value of our State's assets, liabilities and income, and internal control weaknesses have resulted in failure to include six entities in the 2021 set (Section 1, p. 12–13).

Material and pervasive misstatements have been found in the State set of consolidated reports (Section 1, p. 14–15). Out of them:

- 97.67% (EUR 11,801.23 million) of the data on tax income and related receivables and payables cannot be verified for correctness - circumstances related to deficiencies in the information systems used by the State Tax Inspectorate for the management of the tax fund accounting remained in 2021.
- 23 State information systems and registers are not recorded in the financial accounts of public sector entities whereas intangible assets recorded and used in the activities of the institutions are amortised: 80–100% of intangible assets used in the activities of 193 entities are fully amortised, such assets of 76 more entities account for 60–80%.
- Assets of EUR 3,029.50 million that include land and roads (infrastructures and other structures) are recorded as financial assets. In addition, the legal registration of the land occupied by the national roads has not been completed: as of 31/12/2021, about 10% of these land parcels remained not registered which are not recorded in the financial reports either.
- Resources are presented at incorrect values and are not inventoried, as a result, data of EUR 2,327.95 million on the value of mineral resources and related amounts are calculated incorrectly. Mineral resources costs of EUR 653.36 million were incorrectly calculated, i.e., 21 times more compared to the income received - EUR 30.67 million, as the values used to calculate costs differ significantly (up to 33 times) from the tax rate applied to calculate income.
- In 2021, income was increased by EUR 936.04 million and costs by EUR 663.34 million by reporting provisions (long-term liabilities) - re-recording part of the provision for the construction of a deep geological repository and recording part of the provision for the decommissioning of the Ignalina Nuclear Power Plant from European Union funds.
- Data of assets of EUR 337.27 million and consequently the financing amounts, liabilities and net assets are incorrect, as the financial accounting processes and recording of economic transactions of three public sector entities - the Multi-apartment Buildings Modernisation Fund, the State Studies Foundation, and the Licensed Warehousing Compensation Fund - do not comply with the requirements of the Law on Public Sector Accountability and the public sector accounting and financial reporting standards.
- Financial fixed assets have been increased by EUR 116.73 million and cash and near-cash assets have been reduced by the same amount due to the Ministry of the Environment's incorrect disclosure of the financial data of the funds of the JESSICA Holding Fund and the JESSICA II Fund.
- EUR 181 million of liabilities assumed by the State to finance the modernisation and renovation of multi-apartment buildings and similar liabilities for other European Union and national projects have not been recorded in the financial accounts and are not shown as provisions in the reports or disclosed as contingent liabilities in the explanatory notes.
- Land values of EUR 192.84 million indicated in the set of consolidated reports - data on forest land - are not reliable, as the State-owned agricultural parcels taken over from and transferred to the National Land Service are not registered or deregistered, the fair value of the land has been misstated and has not been adjusted for the

purpose of preparing financial reports, and the inventory of the land has been performed inadequately.

- Biological assets of EUR 22.41 million are unreliable as biological assets are not accounted for in accordance with public sector accounting and financial reporting standards, in such a way that the correct changes in the value of the assets can be identified: 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.
- The data on the balances of assets/inventories of EUR 43.77 million of the Health Emergency Situations Centre and the National Public Health Surveillance Laboratory is unreliable as the inventory data did not correspond to the accounting registers data, the documents did not indicate the deadlines for the delivery of the goods, and the late delivery penalties were not calculated.
- In their financial reports, Courts do not follow the requirements of public sector accounting and financial reporting standards in recording and disclosing the economic transactions relating to stamp duty income and the fines they impose. In 2021, EUR 18.6 million from stamp duty and fine revenue were received. Decisions to correctly account for part of the Courts' income have been taken and their implementation is foreseen for 2022.
- 3% (around EUR 4.51 million) of movable cultural properties were recorded in the accounts of museums of the Ministry of Culture and its subordinate museums at a symbolic value of one euro rather than at fair value. In addition, archives holding properties that meet the criteria for asset recognition in public sector accounting and financial reporting standards do not record or disclose them in their financial reports. The amount of unrecorded movable cultural properties is therefore even higher than the 3% mentioned above.
- Income and assets were increased by EUR 37.17 million due to not eliminated import VAT arising from the relationship between public sector entities.

In 2021, the municipal control and audit services identified material misstatements of data – did not confirm the correctness of EUR 1,265.67 million of fixed assets and the amounts of financing and net assets related to these assets. The biggest part of this amount is due to incorrectly accounted roads and streets of municipalities (Section 1, p. 15–16).

Material misstatements of data have been found in the sets of reports of the Compulsory Health Insurance Fund, State Social Insurance Fund, Guarantee Fund, and the Long-Term Employee Benefits Fund. Out of them:

- The Compulsory Health Insurance Fund in its set of reports unduly misstated other operating income and social benefit costs by EUR 41.84 million, due to funds, which, in economic terms, are reimbursements of costs recognised by the Fund in prior periods for services provided, medicines and supplies dispensed. In addition, we cannot confirm the correctness of the current assets of EUR 5.56 million due to deficiencies in the information system, which does not ensure the traceability of the data needed to keep the accounts. And we cannot estimate to what amount the balance of current assets of EUR 7.28 million (out of EUR 32.86 million) should be lower and the balance of non-current financial assets of EUR 41.29 million should be higher, respectively, due to the incorrect recording of payments of receivables deferred for more than 12 months (Section 1, p. 16).

- In the State Social Insurance Fund's set, we cannot confirm the correctness of the Fund's contributions receivable after one year amounting to EUR 63.40 million and of the overpayments to be recovered amounting to EUR 60.33 million, due to the accounting of the compulsory health insurance contributions paid by the self-employed, i.e., the individuals' estimated contribution obligations were not reduced, but their overpayments were recorded (Section 1, p. 16).

2. 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 by following our annual audits to take measures to address the most common causes of errors. In previous audits, we have made recommendations to initiate a review (inventory) of the activities carried out by the public sector and the related assets and liabilities, and to decide on the application of a common (uniform) accounting policy. The measure chosen by the Ministry to review the activities of this 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 had planned to adopt by Q2 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 (Section 2, p. 17–18).

In 2020, a new version of the Law on Public Sector Accountability was adopted, however its implementation was postponed for one year. Once in force, it should change the composition, timing and procedure of the annual sets of reports submitted by the Government to the Seimas (and approved by the Seimas) – the new provisions will allow performance to be linked to financial data. These data will have to be prepared and presented to the Seimas during the spring session. Moreover, the scope of consolidated entities will be expanded - the accounts of profit-making entities owned by the State and municipalities will be included in the sets of reports. 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 (Section 2, p. 19).

3. The debt data is correct in all material respects

At the end of 2021, general government debt accounted for EUR 24.5 billion, during 2021, it increased by EUR 1.5 billion, or 6.4%. The debt-to-GDP ratio decreased by 2.3 p.p. and at the end of 2021 accounted for 44.3% of GDP. We have not identified any inaccuracies in the debt data (Section 3, p. 19–20).

In 2021, it was planned to borrow EUR 5.2 billion, while the actual borrowing accounted for EUR 3.6 billion. The Government's borrowing in 2021 was in line with the borrowing limits (Section 3, p. 20).

Seimas sets debt limits, guarantee limits and debt repayment requirements for municipalities, however, it does not perform the monitoring of compliance, there is no established obligation to provide information to the Seimas on implementation, and no constraints are set for those municipalities that do not comply with them. The Ministry of Finance is drafting legislation to improve the municipal fiscal system, including an independent assessment of the implementation of fiscal discipline rules, an obligation to correct non-compliance with the rules (if found) and an assessment of its fulfilment, reporting to the Seimas on the results of the assessment of compliance with the rules, and imposing restrictions on municipalities that have actually breached the fiscal discipline rules (Section 3, p. 21–23).

4. In 2021, the reserves have been replenished EUR 25.8 million less than planned, the definition of optimal debt level is postponed to 2023

The 2021 results estimate accumulates EUR 1,981.2 million (while it was planned EUR 2,007.0 million) in the reserves of the Reserve (Stabilisation) Fund, the State Social Insurance Fund and the Compulsory Health Insurance Fund. In 2021, the reserves have been replenished EUR 25.8 million less than planned (Section 4, p. 23).

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. We believe that the issues of the reserve of public funds – the target level, sources of funding, etc. – should also be comprehensively reviewed as part of the preparation of the general government debt management strategy. The Government planned to prepare a strategy for general government debt management, including the definition of an optimal debt level and a plan to achieve it in the long term by Q2 2022, however, it did not do so and postponed the deadline until Q2 2023 (Section 4, p. 24).

Recommendations

To have reliable data of financial reports and public debt, it is also important to follow up on the recommendations made in previous audits on the correctness of the 2016–2019 set of national financial reports, data of public debt and the assessment of public debt management.

Information on the status of implementation of major and medium recommendations made but not yet implemented in the first half of 2022 is provided in the Report on the Implementation of the Recommendations of 7 September 2022[1].

Relevant information on the status of implementation of the recommendations, results and developments is published as open data on the National Audit Office's website https://www.valstybeskontrole.lt/LT/AtviriDuomenys.

[1] 07/09/2022 No RAE-12. Internet access: https://www.valstybeskontrole.lt/LT/post/3136/.