VALSTYBĖS KONTROLĖ
PUBLIC AUDIT

PUBLIC AUDIT REPORT

RESULTS OF FINANCIAL AUDIT OF THE 2021 SETS OF FINANCIAL AND BUDGET EXECUTION REPORTS OF THE RESERVE (STABILISATION) FUND

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The main function of the National Audit Office of Lithuania is to supervise the lawfulness and effectiveness of the management and the use of State property and execution of the State budget. By providing audit observations and recommendations, the National Audit Office promotes positive and effective public audit impact on public finance management and control system and on public management oriented towards results and public needs. For more information on the activities of the National Audit Office and the results of the public audit, see www.valstybeskontrole.lt.

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The public Audit Report has been submitted to the Seimas (Parliament) of the Republic of Lithuania, the Government of the Republic of Lithuania, and the Ministry of Finance of the Republic of Lithuania.

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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 the audit of the 2021 sets of financial and budget execution reports of the Reserve (Stabilisation) Fund (hereinafter – Fund). The audit has been performed 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 audit opinion.

The scope of the audit and the applied methods are described in more detail in the Report's Annex "The Scope and Methods of the Audit" (p. 8–9).

Purpose of the Reserve (Stabilisation) Fund

The 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 have been established for the installation of a deep repository for radioactive waste, for the management of radioactive waste and 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[4], the Fund is a public sector entity managed by the Ministry of Finance[5]. The accounting of the Fund is kept by the Ministry, as an appropriation manager, separately from its own accounting[6]. The financial reports of the Fund are prepared in accordance with the Law on Public Sector Accountability[7] 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 the rules on the formation of budget execution reports of resource funds[8] The Ministry of Finance submits a set of reports to the Government by 1 October, which, after approving the set, submits

[1] Law on National Audit Office, Article 8(2)(4)

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

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

[4] Law on Public Sector Accountability, Article 2(19), Article 2(22)6

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

[6] Ibid p. 19

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

[8] Minister of Finance' Order No 1K-461 of 16 December 2014 on the approval of the rules on the formation of budget execution reports of resource funds.

it to the Seimas (Parliament)[9] by 10 October. 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 to the Seimas (Parliament) by 10 October at the latest[10].

The sources[11] 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.

As well as:

- 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;
- funds from the investment of the Fund's resources or from the Fund's bank balance, other funds legally received.

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

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

[11] Regulations of the Reserve (Stabilisation) Fund approved by the Seimas (Parliament) Resolution No IX-912 of 30 May 2002, p. 5.

AUDIT RESULTS

1. THE SETS OF FINANCIAL AND BUDGET EXECUTION REPORTS ARE CORRECT IN ALL MATERIAL RESPECTS

1. Financial and budget execution reports for 2021 of the Reserve (Stabilisation) Fund are prepared and presented in accordance with the applicable requirements in all material respects and give a true and fair view. An error in the 2020 set of financial reports, which led to a conditional opinion on that set, was corrected in 2021.

2. The plan[12] is to consolidate the data of the Fund's financial reports into a set of consolidated government reports in 2024 and to no longer prepare a separate set of reports for the Fund to the Government and the Seimas (Parliament).

2. FUND INCREASED BY THE PLANNED EUR 55.44 MILLION IN 2021

3. At the beginning of 2021, the Fund accumulated EUR 356.94 million, and at the end of 2021 - EUR 412.38 million (EUR 0.56 million more than planned) (Table 1). Of this amount, at the beginning of 2021, EUR 25.61 million was allocated for the installation of the deep repository for radioactive waste and the management of radioactive waste and EUR 42.55 million at the end of 2021. It should be noted that as of 1 May 2021, the Fund has only accumulated funds for the installation of a deep repository for radioactive waste and the management of radioactive waste, while no funds have been accumulated to safeguard the stability of the State. This decision[13] was taken in accordance with the Fund's regulations[14], given that the actual level of government debt exceeded 45% of the gross domestic product in 2020.

1 lentelė. Implementation of the estimates for the Reserve (Stabilisation) Fund for 2021–2020, EUR million

Title of the Article	2021		2020	
	plan	execution	plan	execution
Funds balance at the beginning of the reporting period, out of them:	356.94	356.94	328.40	286.41
for the installation of a deep repository for radioactive waste and the management of radioactive waste (25% of dividends transferred to the State budget)	–	25.61	–	–

[12] Law on Public Sector Accountability (version in force from 01/01/2023), Article 2(18); Article 8 of Law amending Articles 1 and 2 of Law No XIII-3308 amending of the Law on Public Sector Accountability No X-1212.

[13] 03/05/2021 Order No 1K-155 of the Minister of Finance on the accumulation of funds in the Reserve (Stabilisation) Fund.

[14] Regulations of the Reserve (Stabilisation) Fund approved by the Seimas (Parliament) Resolution No IX-912 of 30 May 2002, p. 7.

Title of the Article	2021		2020	
	plan	execution	plan	execution
Revenue, of which:	**56.81**	**57.37**	**118.37**	**71.56**
revenue until 30 April 2021	40.29	40.29	0.00	0.00
for the installation of a deep repository for radioactive waste and the management of radioactive waste, of which:	16.52	17.08	0.00	0.00
from the sale of the property of the State Enterprise Ignalina Nuclear Power Plant;	1.50	2.61	0.00	0.00
from 1 May 2021, 25% of dividends received by the State budget	15.02	14.47	0.00	0.00
Expenses	1.93	1.93	1.94	1.03
Balance of funds at the end of the reporting period:	**411.82**	**412.38**	**444.83**	**356.94**
of which for the installation of a deep repository for radioactive waste and the management of radioactive waste	–	42.55	45.25[15]	25.61

Source: National Audit Office based on data from the Report on the Implementation of the Estimates of the Fund for 2021

4. The largest part of the Fund's revenue – EUR 42.47 million (74.03%) – in 2021 consisted of dividends received[16] by the State, other revenue from the sale of State land parcels – EUR 7.49 million (13.06%), immovable property – EUR 4.11 million (7.17%), etc.

5. The National Audit Office, which audited the decommissioning process of the Ignalina Nuclear Power Plant in 2021[17], pointed out that the need for funds for the installation of a deep repository amounts to an average of EUR 42.7 million annually. In 2021, EUR 17.08 million was accumulated to finance the repository. However, this result was achieved only under exceptional circumstances due to the transfer to the Fund of 25% of the dividends received to the State budget[18].

6. The Government programme foresees [19] the development of a strategy for the management of government debt, intending to return to an optimal level of debt in the long term. 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. The Ministry of Finance planned to have this strategy in place by Q2 2022[20] but did not achieve this plan.

Auditor General　　　　　　　　　　　　　　　　Mindaugas Macijauskas

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

[16] Of which: EUR 28.01 million (48.81% of the total actual revenue received) – 50% of the dividends received into the State budget; EUR 14.47 million (25.21% of the total actual revenue received) – from 1 May 2021, 25% of the dividends received into the State budget have been accumulated for the installation of a deep repository for radioactive waste and for the management of radioactive waste.

[17] 16/06/2021 Public Audit Report No VAE-4 "Decommissioning Process of the Ignalina Nuclear Power Plant".

[18] Regulations of the Reserve (Stabilisation) Fund approved by the Seimas (Parliament) Resolution No IX-912 of 30 May 2002, p. 7 and 7(1).

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

[20] 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.

ANNEXES

Public audit reports
Results of Financial Audit of the 2021 Sets of Financial and Budget Execution Reports of the Reserve (Stabilisation) Fund
Annex

Scope and Methods of the Audit

The objective of the Audit:

- assess the data of the 2021 financial and budget implementation reports of the Reserve (Stabilisation) Fund and to provide an independent opinion.

Audited financial reports of the 2021 Reserve (Stabilisation) Fund:

- the reports of financial position, performance, cash flows, and changes in net assets; and the explanatory note to financial reports were prepared in accordance with data of 31 December 2021.

Audited 2021 budget execution reports:

- the 31/12/2021 report on the execution of the estimate of funds and its explanatory note.

Subsidiaries, controlled or consolidated bodies in operation:

- the Fund has no subsidiaries, controlled or consolidated bodies.

Audit scope limitations:

- the scope of the audit was not limited.

The Audit was performed:

- in accordance with the International Auditing Standards (IAS)[21], and International Standards of Supreme Audit Institutions[22];
- to obtain reasonable assurance that the financial and budget execution reports have no material misstatements. Absolute assurance is not possible due to the inherent limitations in audit and internal control.

Scope and Methods of the Audit
Balances of assets and correspondingly of funding amounts, liabilities, and net assets at the beginning and end of 2021:

[21] International standards for auditing published by the International Auditing and Assurance Standards Board of the International Federation of Accountants and translated by The Lithuanian Court of Auditors (until 28/02/2017) and The Authority of Audit, Accounting, Property Valuation and Insolvency Management under the Ministry of Finance of the Republic of Lithuania (from 01/03/2017), Internet access: https://avnt.lrv.lt/lt/teisine-informacija/teises-aktai/auditas (accessed on 29/06/2022).

[22] 2000–2899 ISSAIs "Financial Audit Standards", Internet access: https://www.valstybeskontrole.lt/LT/post/15653/ (accessed on 29/06/2022).

Scope and Methods of the Audit

At the beginning of 2021, the balance of assets and, respectively, funding amounts, liabilities and net assets totalled EUR 369.65 million, at the end of 2021 - EUR 412.38 million.

Revenue received and expenditure incurred in 2021:

The Fund received revenue of EUR 57.37 million:

- EUR 28.00 million – 50% of the revenue received into the State budget for dividends;
- EUR 7.49 million – 50% of the revenue received into the State budget for State land parcels;
- EUR 4.11 million – 50% of the revenue received into the State budget for immovable assets and other immovable assets things;
- EUR 0.68 million – 50% of the revenue received into the State budget from privatised State-owned shareholdings;
- EUR 14.47million – 25% of the revenue received into the State budget for dividends, accumulated for the installation of a deep repository for radioactive waste and the management of radioactive waste;
- EUR 2.61 million – funds from the sale of the property of the State Enterprise Ignalina Nuclear Power Plant.

The Fund incurred EUR 1.93 million in expenditure consisting of negative interest on the balance of funds in the Fund's bank account.

Areas assessed and procedures carried out for 2021 sets of reports

Having carried out the audit of the audited entity's activities, accounting, and internal control systems, areas in which material risk of distortion exists have been established:

- Obligations.
- It was decided to assess whether all revenue received and related economic operations, assets, financing amounts, obligations were registered in time, with correct values, with appropriate supporting documents, appropriate correspondence in the reports, or whether the data was correctly disclosed in the financial and other reports.

Areas where the effectiveness of control procedures has been established (performed control testing):

- Internal control was not tested.

Areas where key audit procedures (detailed tests and/or analytical procedures) were performed:

- Operating income, and expenses - 100% detailed tests have been carried out to obtain the approvals for completeness, certainty, existence, assessment, and disclosure.
- Compilation of annual reports - 100% assessment has been carried out to obtain the approval for disclosure.

The overall assessment of the set of reports:

Assessed:

- the suitability of the used accounting methods and the validity of the accounting assessments and related management disclosures;
- the overall presentation, structure, and content, including disclosures, of the (consolidated) financial reports, and the fact if the justifying transactions and events are presented in these reports according to the Standards of Public Sector Accounting and Financial Reporting;
- the overall presentation, structure, and content of the (consolidated) financial reports, and the fact if the justifying transactions and events are presented in these reports according to the requirements for the preparation of sets of budget execution reports.