# RESULTS OF FINANCIAL AUDIT OF THE 2021 SETS OF STATE CONSOLIDATED FINANCIAL AND BUDGET EXECUTION REPORTS

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No FAE-6

## SUMMARY

### Objective and Scope of the Audit

Pursuant to the Law on National Audit Office, the Law on Public Sector Accountability and the Law on the Budget Structure, we have carried out an audit of the 2021 set of State consolidated reports.

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. 43). The audit report includes only the matters performed and identified during the audit, and independent opinion on the set of consolidated financial reports and set of budget execution reports is presented in the auditor’s report.

### Key Results of the Audit:

#### 1. Misstatements found in the data of the set of State consolidated financial reports are material and pervasive

The availability and openness of quality public sector data is a prerequisite for greater efficiency and inter-institutional cooperation between public administration institutions, for increasing transparency in government and for promoting citizen involvement in decision-making. One of the fundamental data sources is the financial data of the public sector entities, which are still unreliable.

Material misstatements were found in the set of State consolidated financial reports and reliably assessed by public auditors (known error) regarding items for fixed assets, operating revenue, expenses, and material amounts, which could not be confirmed as correct for a variety of reasons, were found in almost all the items of the set of financial reports, and therefore it is not possible to confirm the correctness of the result of activities for the year 2021 as set out in the sets of reports (Section 1, p. 11–12).

- 97.3% (EUR 9,641.20 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 (Section 1, p.p. 12–14).
- 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 have been recorded too quickly – 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% (Section 1, p. 14– 17).
- Assets of EUR 3,029.50 million are recorded as financial assets, though it includes land and infrastructures, and other structures (roads). This is due to the decisions taken to account for these state-owned assets not in the accounts of the Ministry of Transport and Communications, but in the accounts of the SE Lithuanian Road Administration, although the Administration does not receive economic benefits from these assets and does not make decisions on its management. In addition, the legal registration of land parcels occupied by roads of national importance has not been completed — around 10% of these parcels remain unrecorded as of 31 December 2021, they are also not recorded in the financial accounts (Section 1, p. 17–18).
- The value of mineral resources of EUR 2,327.95 million and related amounts were incorrectly calculated, as the resources are shown in the accounts of the Lithuanian Geological Survey at incorrect values and are not inventoried. The Survey miscalculated the costs of mineral resources accounting for EUR 653.36 million, i.e., 21 times more compared to the income the State Tax Inspectorate received - EUR 30.67 million, because the values used to calculate costs differ significantly (up to 33 times) from the tax rate used to calculate income (Section 1, p. 19).
- 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 (Section 1, p. 20).
- 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 (Section 1, p. 20–22).
- Financial fixed assets have been increased by EUR 116.73 million and cash and cash equivalents have been reduced by the same amount due to the Ministry of the

Environment's misrepresentation of the financial disclosure of the funds of the JESSICA Holding Fund and the JESSICA II Fund (Section 1, p. 22).

- EUR 181 million of liabilities made 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 (Section 1, p. 22–23).
- About 1% of the value of land (data on forest land) specified in the set of consolidated reports is unreliable as the Ministry of the Environment has not registered and deregistered the State-owned agricultural parcels taken over from and transferred to the National Land Service, the fair value of the land has been misstated and has not been adjusted for the purpose of the financial reports, and the inventory of the land has been performed inadequately (Section 1, p. 23–25).
- Data on biological assets of EUR 22.41 million are unreliable as these 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, such as 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 recorded previously in the accounts (Section 1, p. 25).
- The data on the balances of assets/inventories amounting to EUR 43.77 million for the Health Emergency Situations Centre and the National Public Health Surveillance Laboratory are unreliable, as the institutions' inventory data did not correspond to the accounting register data, the documents did not indicate the deadlines for the delivery of the goods, and the late delivery penalties were not calculated. In these institutions, internal controls in the areas of asset management and contract execution are ineffective and there is no internal control in place ensuring the provision of the reliable, relevant, complete, and correct information on their activities, as provided for in the Law on Internal Control and Internal Audit (Section 1, p. 26).
- 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 income (Section 1, p. 27).
- 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 (Section 1, p. 27–29).
- Systematic weaknesses in cost accounting for performance production and other errors in theatres under the supervision of the Ministry of Culture lead to misstatements of EUR 2.3 million in the items for intangible, fixed tangible and current assets. As well as the items for wage and social security costs and other service costs,

the extent of which depends on the volume of performances not completed in the year in question (Section 1, p. 29–30).

- Income and assets were increased by EUR 37.17 million due to not eliminated import VAT resulting from the relationship between public sector entities (Section 1, p. 30).

## 2. Strengthening of internal control and implementation of recommendations would contribute to the quality of financial reports

The following changes would substantially improve the quality of one of the most important data of the State - the financial reports: 1) the introduction of an operational control system in institutions to provide final data approved by the head of the institution for consolidation, 2) putting in place the internal control system of the centralised accounting manager to ensure the preparation of high-quality accounting information, and (3) methodological management of internal control and financial accounting issues to be timely and systematic.

Only half of the public sector entities - 294 out of 556 - submitted data on the 2021 financial reports to the Public Sector Accounting and Reporting Consolidation Information System in due time by 15 March, while the reports of 2023 and subsequent reporting periods will have to be submitted even earlier, by 1 March. We found cases in which the data from the sets of reports are submitted and validated for consolidation and the sets themselves are still open and not signed by the responsible persons (manager and chief accountant), the system prepares consolidated sets of reports before the sets of reports of the institutions whose financial information are consolidated. This indicates the absence of internal control ensuring the provision of reliable, relevant, complete, and correct information on their activities, as provided for by the Law on Internal Control and Internal Audit, which requires the establishment, implementation, and improvement of internal control to be ensured by the head of the institution (Section 2.1, p. 30–33).

In order to achieve the quality of accounting at the National Shared Functions Centre, in 2019, we provided recommendations to the Centre and the Ministry of Finance to improve the quality of the internal control system. Recommendations have not yet been implemented and the scope of the shortcomings found shows that a sufficient level of quality has not yet been reached. The performance audit of the Centralisation of the Functions of Accounting Management and Personnel Administration, during which the centralisation of the accounting management function was also assessed, will be completed in October 2022 (Section 2.2, p. 33–35).

Already in our last year's audits, we stressed that implementation of the recommendations made by the National Audit Office to the Ministry of Finance on the review of the activities of public sector entities with a view to obtaining complete accounting data, as well as the implementation of a uniform accounting policy, would significantly help institutions in improving the quality of their financial accounting data. The measure chosen by the Ministry to review the activities of public sector entities did not have an impact and therefore a different one should be chosen, while the decisions on a common (uniform) accounting policy, which the Ministry 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 2.3, p. 35–37).

### 3. 3.52% of appropriations were incorrectly disclosed in the State budget execution reports

The expenditure of budgetary institutions financed by the appropriations of the State budget is presented in accordance with the economic classification categories: wages, utilities, goods and services, information technology goods and services, etc. However, for projects financed by the European Union and co-financing, a similar expenditure of EUR 519.66 million is reported under one economic classification category as transfers to other government entities, therefore we could not confirm that the data for the transfer of funds from the European Union, other international financial assistance and co-financing in the 2021 set are correct: for current purposes, EUR 241,09 million for other government entities and EUR 278,57 million for investments for other government entities (Section 3, p. 37–40).

## Recommendations

The audit procedures were carried out in 175 bodies, 109 of which made observations on the issues identified and made recommendations on the correction of accounting weaknesses, strengthening of internal controls and examination of the circumstances of accounting 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/.