

# RESULTS OF FINANCIAL AUDIT OF THE SET OF NATIONAL FINANCIAL STATEMENTS AND PUBLIC DEBT DATA FOR 2022

29 September 2023

No FAE-3

## SUMMARY

### Objective and scope of the audit

We conducted an audit of the 2022 set of national financial statements and public debt data pursuant to the Law on National Audit Office, the Law on Public Sector Accountability and the Law on Public Debt.

The audit was conducted in accordance with International Standards on Supreme Audit Institutions, which include International Standards on Auditing. The scope of the audit and the methods applied are described in more detail in Annex 2 *Audit scope and methods* (page 24). The audit report presents only the matters identified in the audit while the independent opinion on the consolidated set of financial statements is expressed in the auditor's report.

### Key audit findings

#### 1. The set of financial statements contains material misstatements

For the eleventh consecutive year (since the time when the drafting of the statements was started), we have identified material misstatements in the set of national financial statements as it does not reflect the true value of state-owned assets, liabilities and revenues, and internal control weaknesses have resulted in the exclusion of four entities from the 2022 set. However, quantitatively and qualitatively significant errors were not prevalent in 2022, as they were in 2021 and 2020 (Section 1, page 10).

Material misstatements have been identified in the state's set of consolidated statements and, accordingly, in the notes to accounts (Section 1, page 12), of which:

- ✓ 97.48% (EUR 11 462.37 million) of the data on tax revenue and related receivables and payables cannot be confirmed as correct. The circumstances in the Tax Fund of the State Tax Inspectorate related to deficiencies in the information systems used for accounting purposes remained in 2022;
- ✓ about 2% (EUR 588.01 million) of the data on land value, mainly on forest land, are unreliable due to the failure to record and register in the accounts of the Ministry of the Environment the state forestry land taken over from and transferred to the National Land Service, the misstatement of the fair value of the land, the inadequate inventory of the land, and the misstatement and restatement of the fair value of the land for the purposes of the financial statements;
- ✓ we cannot confirm EUR 383.41 million of non-current financial assets because the Ministry of the Environment misrepresents financial disclosures of the JESSICA Holding Fund and the JESSICA II Fund;
- ✓ the assets and, consequently, the financing amounts, liabilities and net assets of EUR 68.80 million are incorrect because the financial accounting processes and the recording of economic transactions of the three public sector entities do not comply with the requirements of the Law on Public Sector Reporting and the Public Sector Accounting and Financial Reporting Standards. Of these, two are unreliable for the second consecutive year;
- ✓ an increase of EUR 51.39 million in the reserve, because 476 units of forestry land acquired in 2022 were not recorded in accounts of the Ministry of Environment at their fair value at initial recognition, but through the change in fair value recorded when the asset is measured at the time of the preparation of financial statements.

In 2022, the Municipal Control and Audit Services identified material misstatements and did not confirm the correctness of EUR 1 280.34 million of non-current assets and the amounts of financing and net assets related to these assets. The biggest share of this amount is due to incorrectly recorded municipal roads and streets (Section 1, page 12).

Material misstatements of data were identified in the sets of accounts of the Compulsory Health Insurance Fund, State Social Insurance Fund and the Long-Term Employment Benefits Fund in relation to the correct recording of the receivables and liabilities of the Funds (Section 1, page 13).

## 2. Implementation of the recommendations would contribute to reducing errors in reporting

In order to reduce the level of misstatements in the accounting of public sector entities, we recommend that the Ministry of Finance takes measures to address the most common causes of errors each year following audits. In previous audits, we have made recommendations to initiate a review (inventory) of public sector activities and related assets and liabilities and to decide on the application of a common (uniform) accounting policy. The measures chosen by the Ministry for the review of the activities of these public sector entities did not have any effect, so other measures were chosen: the description of the procedure for the centralised organisation of accounting for public sector entities is being amended and will define the process of presenting information and responsibilities necessary

for accounting, and the accounting models implemented in the common accounting subsystem for public sector entities, FABIS, on the basis of a description of the standardised processes, which will contribute to the unified application of the accounting processes of the entities using the system, as well as to the automation and simplification of accounting processes (Section 2, page 13).

A new version of the Law on Public Sector Accountability took effect in 2023. It will change the composition, timing and procedure of the annual reports submitted by the Government to the Seimas (and approved by the Seimas): the new provisions of the Law will implement a recommendation made by the National Audit Office and will allow the linking of performance with financial data. These data will have to be prepared and submitted to the Seimas during the spring session. The Law also extends the scope of consolidated entities to include the accounts of profit-making entities controlled by the state and municipalities. However, a draft amendment to the Law was registered in the Seimas on 5 July 2023, proposing to postpone the extension of the scope of consolidated entities for two years (Section 2, page 14).

### 3. Public debt data are correct in all material respects

General government debt totalled EUR 25,672.4 million at the end of 2022, increasing by EUR 1,136.9 million or 4.6% over 2022. The debt-to-GDP ratio decreased by 5.3% p.p. to 38.4% of GDP at the end of 2022. We did not identify any inaccuracies in the debt data (Section 3, page 15).

The plan was to borrow EUR 3,907.0 million in 2022, actually borrowing EUR 3,731.0 million. The government's borrowing in 2022 was in line with the borrowing limits (Section 3, page 16).

Limits on the size of municipal debt, borrowing, guarantees and debt service requirements are set annually in the Law on indicators for that year, but they are not systematically followed: in 2022, all municipalities complied with only one of them - the gross debt limit. In response, the Ministry of Finance has reviewed the fiscal discipline framework for municipalities, as laid down in legislation which their budgets are subject to, and amended the relevant legislation. Once the amendments to the legislation take effect, municipal debt monitoring will be conducted from 2023, establishing an obligation to the Seimas to provide on compliance with debt limits and restrictions on municipalities that do not comply with the limits (Section 3, page 16).

The government planned to prepare and present a strategy for managing government debt together with Lithuania's Stability Programme for 2022. These plans were postponed until Q2 2023, and then modified by replacing the strategy with a tool for modelling debt scenarios and assessing the sustainability of general government finances. This is an important step in fiscal policy, but it does not replace a strategy for public debt management, i.e., knowing what objectives are pursued. (Section 3, page 20).

### 4. Reserves were replenished by EUR 894.3 million in 2022, but it was not specified how much of them Lithuania has to accumulate

In 2022, EUR 2,875.5 million was accumulated in the reserves of the Reserve (Stabilisation) Fund, the State Social Insurance Fund and the Compulsory Health Insurance Fund. The

State Social Insurance Fund reserve accounts for the largest share of the reserves (EUR 1,962.2 million), which is the main contributor to the increase (Section 4, page 21).

In previous audits, the National Audit Office highlighted the need to review the issues of public reserves - target level, sources of funding, etc. - in a comprehensive manner, together with the strategy for public debt management, but the issues have not been resolved having failed to prepare such a strategy (Section 4, page 22).

## Recommendations

In order to have reliable data on the financial statements and public debt, it is important to also implement the recommendations made in the audits on the correctness of the set of national financial statements for 2016-2020, public debt data and its management.

Information on the status of implementation of major and medium recommendations made but not yet implemented as of 1 September 2023 is available in the Report on the Implementation of the Recommendations of 7 September 2023<sup>1</sup>.

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>.

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<sup>1</sup> No RAE-14 of 7 September 2023. Online access: <https://www.valstybeskontrole.lt/LT/post/3136/>.