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PUBLIC AUDIT

RESULTS OF FINANCIAL AUDIT OF THE SETS OF CONSOLIDATED FINANCIAL STATEMENTS AND BUDGET EXECUTION REPORTS OF THE STATE FOR 2022

29 September 2023

No FAE-4

SUMMARY

Objective and scope of the audit

We have audited the set of consolidated financial statements of the state for 2022 In accordance with the Law on National Audit Office, the Law on Public Sector Accountability and the Law on Budgetary Framework.

The audit was carried out 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 31). The audit report presents only the matters identified in the audit, while the independent audit opinion on the set of consolidated financial statements and budget execution reports is expressed in the auditor’s report.

Key audit findings

1. Misstatements found in the set of consolidated financial statements of the state are material

The availability and openness of quality public sector data create conditions for greater efficiency and inter-institutional cooperation between public administrations, increase transparency in government and promote citizen involvement in decision-making. One of the most fundamental sources of data is the financial data of public sector entities, which still are significantly misstated.

The set of consolidated financial statements of the state was materially misstated and some of the data could not be certified as correct for a variety of reasons: property, plant and equipment, accounts receivable within one year, current liabilities, accumulated surplus or deficit, other operating income, revenue, cash transfers, etc. Accordingly, the information in the notes to accounts is also incorrect. Quantitatively and qualitatively material errors were not as prevalent in 2022 as they were in 2021 and 2020, but they are present and the result of operations reported in the set of financial statements is materially misstated (Section 1, pages 11-12):

- ✓ 97.48% (EUR 11 462.37 million) of tax revenue and related receivables and payables cannot be verified as correct. The circumstances in the Tax Fund of the State Tax Inspectorate related to weaknesses in the information systems used for accounting purposes remained unchanged in 2022 (Section 1, pages 13-14);
- ✓ We cannot confirm the correctness of the value of about 2% (EUR 588.01 million) of the land value - forest land - because the Ministry of the Environment's accounts do not adjust the fair value of the land when preparing the financial statements, land plots are duplicated in accounting, and the inventory of land plots was not carried out properly (Section 1, page 14);
- ✓ We cannot verify 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 (Section 1, pages 14-15);
- ✓ 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 are not in line with the requirements of the Law on Public Sector Reporting and the Public Sector Accounting and Financial Reporting Standards. For two of them, the data are unreliable for a second year (Section 1, pages 15-16);
- ✓ A EUR 51.39 million increase in the reserve because of the accounting of the Ministry of Environment of the tree plantations acquired in 2022 on 476 land plots of forestry purpose is not recorded at their fair value recorded at their initial recognition but through a change in fair value recorded having measured assets when drafting the financial statements (Section 1, page 14).

Other errors were made by the institutions which, taken together, distorted data of the set of consolidated financial statements of the state. It is essential to note that the main internal control procedure, the inventory, the results of which should have substantiated the accounting data, was conducted with material shortcomings (delays, incomplete inventory of assets and liabilities, or failure to record the results in the accounts, etc.). These inventory shortcomings did not allow to verify the correctness of the Institutions' assets of EUR 242,82 million and liabilities of EUR 7,87 million (Subsection 1.2 and 1.3).

In 2022, there also were some positive developments in correcting material accounting errors. Some of them have been corrected by the entities themselves: (1) roads of national significance and the land under them are now reported as land and infrastructure structures (they used to be recorded as financial assets); (2) the valuation of movable cultural property at fair value in the accounts of the Ministry of Culture and its subordinate museums is being finalised (it was at a symbolic value of one euro); (3) courts started accounting for stamp duty, but the accounting for fines is pending decisions. Significant accounting errors of entities were corrected by the Ministry of Finance drafting the set of consolidated financial statements of the state: correcting the erroneous recording of the change in the value of state land by the National Land Service (reversing the cost of depreciation of land of EUR 7 622.55 million in previous years) and the calculation of the value of mineral resources by the Lithuanian Geological Survey (a decrease in value of EUR 1 261.03 million) (Subsection 1.4)

2. Centralised accounting is still a challenge

The public sector entities referred to in the Government's resolution must use a single financial management accounting information system for their accounting, which would help to organise the recording of accounting transactions, significantly reduce labour time and save the State budget money by eliminating the dozens of maintenance and upkeep costs of the previously used systems. The new accounting information system should be in place before the centralisation of the accounting function, in order to make the centralisation process smoother and less resource-intensive. We have identified a number of bodies that do not maintain or do not fully maintain their accounts in the new information system within the time limits set by the Government.

In addition, there are problems with data provision, responsibilities between the National Centre for Shared Functions and public sector entities, and clarification of responsibilities. As a result, the sets of statements of public sector entities do not include the disclosures required by the public sector accounting and financial reporting standards in the notes to accounts, there are non-recorded economic transactions, in particular those related to the recording of accounting estimates, etc. These issues are to be addressed by an amendment to the Description of the Procedure for Centralised Organisation of Accounting by public sector entities, which would regulate the information to be provided to the centralised accounting officer, the procedure for its presentation and similar matters (Section 2).

3. Misstatements of data in the set of budget execution reports of the state are material

The purpose of the set of budget execution reports of the state is to present the plans and implementation of the State budget revenue by type and expenditure by functional (social protection, economy, education, etc.) and economic (wages, use of goods and services, social benefits, etc.) classifications of the State budget, to provide the public with information on the programmes implemented, the sources of funding for the programmes, the allocation and use of appropriations and, in cases of under-spending, to provide reasons therefor.

The set of budget execution reports of the state for 2022contains material misstatements:

- ✓ EUR 550.47 million is shown as money of EU, other international financial assistance and co-financing, state budget money for project implementation, but it has been used to pay salaries, purchase goods and services, non-current assets, etc. (Section 3, pages 23-25);
- ✓ EUR 354.51 million for national roads and state-owned assets included in the balance sheet of the Ministry of Transport and Communications are shown as other costs, but

should have been stated as costs of construction, repair and maintenance of the assets (Section 3, pages 25-26);

- ✓ EUR 204.09 million for health care services not financed from funds of compulsory health insurance are shown as grants and should have been shown as social benefits (Section 3, pages 26-27);
- ✓ EUR 161.16 million for electricity compensation to legal entities is shown as other costs, but a part of this amount should have been shown as grants and utilities acquisition costs (Section 3, page 27);
- ✓ EUR 62.04 million to entities founded by the municipality or the municipalities themselves are shown as other costs, but they should have been shown as grants (Section 3, page 28).

The correct allocation of income and costs to relevant items provides objective information for monitoring and analysing the performance of the institutions. In addition, the allocation of actual (incurred) costs to the correct economic classification heading is important for the production of statistics and reporting to Eurostat. In order to have true and correct data for reporting and decision-making purposes, it is appropriate to change the system of planning appropriations, as the level of detail used is excessive and not always feasible in practice. This would not only achieve the objective of having true and correct data for decision-making, but also reduce the administrative burden on the institutions.

Recommendations

Audit procedures were conducted on all the entities in the composition of VKFAR of 2022. Observations and recommendations to remedy accounting weaknesses, strengthen internal controls and investigate the circumstances of accounting were made to 87 of the entities.

We have emphasised that the implementation of the recommendations made by the National Audit Office would help institutions to simplify their accounting processes and to have correct financial accounting and reporting data for several years now. The status of implementation of the recommendations made in 2017-2019 relevant to accounting management is presented in the Report No FAE-3 "Results of the Financial Audit of the National Set of Financial Statements and Public Debt Data for 2022" of the National Audit Office dated 29 September 2023. Up-to-date information on the status of implementation of the recommendations of major and medium importance in the first half of 2023 is also provided in the report on the implementation of recommendations of 7 September 2023[1].

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

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