

# RESULTS OF FINANCIAL AUDIT OF THE SETS OF CONSOLIDATED FINANCIAL STATEMENTS AND BUDGET EXECUTION REPORTS OF THE STATE SOCIAL INSURANCE FUND FOR 2022

29 September 2023

No FAE-6

## SUMMARY

### Objective and scope of the audit

We have conducted an audit of the sets of consolidated financial statements and budget execution reports of the State Social Insurance Fund for 2022 in accordance with the Law on National Audit Office and the Law on Public Sector Accountability.

The audit was carried out in accordance with International Standards on Supreme Audit Institutions, which include International Standards on Auditing. The audit report presents the matters identified in the audit only, while independent audit opinions on sets of consolidated financial statements and budget execution reports of the State Social Insurance Fund are expressed in the audit opinion. The scope of the audit and the methods applied are described in more detail in Annex 1 “Scope and methods of the audit” (pages 21-23).

## Key audit results

### 1. The sets of consolidated financial statements and budget execution reports for 2022 contain material misstatements

The sets of consolidated financial statements and budget execution reports of the State Social Insurance Fund have not been prepared, in all material respects, in accordance with the Public Sector Accounting and Financial Reporting Standards (PSFRS) and other legal requirements. We identified material misstatements in the consolidated statements of financial position, results of operations, changes in net assets (short-term investments, cash and cash equivalents, current liabilities, net assets, operating expenses, operating surplus or deficit, net surplus or deficit) and the consolidated statement of budget revenue and expenditure (expenditure and current-year result items) and in the related notes to accounts, which were due to:

- ✓ systemic weaknesses in accounting management, as a result of which
  - transactions relating to the allocation of retirement and non-retirement benefits (where these benefits did not reach the recipients for various reasons) were not recorded in the accounts in the audited and prior periods. The extent of the unrecorded transactions could not be identified by the SFRS Board during the audit. As a result of these circumstances, we are unable to confirm the amount by which the Fund's current liabilities and social benefit costs (expenses) have been reduced and the amount by which operating and current year's result (surplus), net surplus, net assets and the items that make up the surplus have been increased (Subsections 1.1 and 1.2, pages 10-12 and pages 16-17). The Fund's Management Board plans to correct the discrepancies in the sets of consolidated financial statements and budget execution reports for 2023 and to implement the audit recommendation by 31.12.2027 having developed a new software module;
  - reimbursements receivable from foreign social security agencies for unemployment insurance benefits were recorded without their reliable valuation, and depreciation and write-offs were incorrectly recorded. When agencies do not reimburse, or reimburse a part of the unemployment social security benefits paid, the amounts are not reversed as a reduction of the cost of social security benefits, but rather as a depreciation and amortisation expense. As a result, we were unable to confirm the correctness of the receivables balance of EUR 1.9 million, the related operating expenses (costs) of EUR 5.5 million and the operating and current year result (surplus), net surplus and net assets reported for the same amount (Subsections 1.1 and 1.2, pages 13-14 and pages 16-17). The Fund's Board plans to correct the non-compliance and to implement the audit recommendation by 28 February 2024;
- ✓ short-term investments of EUR 100 million were regrouped incorrectly, and were transferred to cash and cash equivalents at the end of the reporting period (Subsection 1.1, page 15);
- ✓ there is an unexplained difference between the current year's results (surplus) in the sets of consolidated financial statements and the budget execution reports, which is EUR 29,4 thousand higher than the amount reported in these reports (Subsections 1.1 and 1.2, pages 15-16 and pages 16-17).

## 2. The social security reserve fund is being accumulated to one year's expenditure

At the end of the reporting period, the State Social Insurance Reserve Fund amounted to EUR 1 962.2 million. The SSIF Board forecasts an increase in the reserve fund to EUR 4,036.0 million by the end of 2026. The monetary resources of this reserve may be used to finance State social insurance benefits in exceptional cases only: in accordance with the Constitutional Law on the Implementation of the Fiscal Compact, when exceptional circumstances have been identified and declared, and when, as a result of these circumstances, revenues of the corresponding type of State social insurance are insufficient for the SSIF budget. According to the Ministry of Social Security and Labour, the reserve is still being accumulated at the moment, with the aim to build up a reserve of the amount specified in the legislation, i.e., the amount of the Fund's annual expenditure for the last preceding year (Section 2, pages 17-18).

## 3. Principles of state social fund budgeting aligned

The principles of budgeting and approval of budgets of state social funds - the State Social Insurance Fund, the Guarantee Fund, and the Long-Term Employment Benefits Fund - have been unified in the implementation of the National Audit Office's recommendations for 2018-2019. On 23 May 2023, the Law on Amendments to the Law on the Structure of the Budget of the State Social Insurance Fund was adopted, in accordance with which the budgets of all state social funds will be drawn up on an accrual basis and approved by a single law, while the budget of the State Social Insurance Fund will approve revenues and expenses by type of social insurance contributions, while notes to account will contain information on the expected accruals of each type. The new provisions of the Law include the adoption of the Rules for the Establishment and Execution of the Budgets of the State Social Funds, the new version of the Descriptions of the Procedures for the Planning of the Budgets of the State Social Funds, and the Classifications and Supplementary Tables of the Budgets of the State Social Funds.

Although the 2024 budgets of the State Social Funds will already be drafted on the accrual basis, when reporting for 2024, the SSIF Board will still submit two sets of financial statements of the State Social Funds prepared on the same accrual basis (the financial statements and the budget execution reports), since the Ministry of Finance has not yet prepared amendments to the SFRSs governing the disclosure of the budget execution data in the annual set of statements. The Ministry of Finance plans to develop a separate standard for public social funds by the end of 2023, but its provisions are expected to be applied to the reporting for 2025, as it is still necessary to adapt VSAKIS for the consolidation of these sets into the national set of reports (Section 3, page 18).

## Recommendations

### To the State Social Insurance Fund Board

1. In order to ensure correct accounting of liabilities and related expenses of the State Social Insurance Fund, to introduce functionalities or other measures in the Benefits Application System to ensure timely transfer or registration of all data on decisions

taken on the granting of retirement and non-retirement benefits in the Financial Management System (pages 2-8).

2. In order to ensure correct accounting of liabilities and related expenses of the State Social Insurance Fund, to assess the compliance of the recognition criteria for liabilities arising from the death of beneficiaries to their successors (prior to making a decision to grant the benefit to the successor) with the IFRS and adjust or supplement the accounting policy of the SSIF in accordance with the results of the assessment (pages 2-8).
3. In order to ensure correct accounting of the assets and expenses of the SSIF: to assess the compliance of the recorded receivables related to the reimbursement of unemployment social insurance benefits with the recognition criteria of the VSAFAS, the recording of the write-off of the receivables, and the results of the assessment to revise or supplement the SSIF accounting policy. To make the necessary adjusting entries in the accounts in accordance with the provisions of IFRS 7 'Changes in Accounting Policies, Accounting Estimates and Errors and Corrections' (pages 9-14).

Measures and deadlines for the implementation of the recommendations are set out in the "Recommendations Implementation Plan" section of the report (pages 19-20).

Up-to-date information on the status of implementation of the recommendations, results and developments is published in open data on the National Audit Office's website <https://www.valstybeskontrole.lt/LT/AtviriDuomenys>.