VALSTYBĖS KONTROLĖ
PUBLIC AUDIT

PUBLIC AUDIT REPORT

RESULTS OF FINANCIAL AUDIT OF THE SETS OF FINANCIAL STATEMENTS AND BUDGET EXECUTION REPORTS OF THE LONG-TERM EMPLOYMENT BENEFITS FUND FOR 2022

29 September 2023

No. FAE-7

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The Public Audit Report was submitted to: the Seimas of the Republic of Lithuania, the Government of the Republic of Lithuania, the Ministry of Social Security and Labour of the Republic of Lithuania, and the State Social Insurance Fund Board.

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INTRODUCTION

Objective and scope of the audit

We conducted a financial audit of the financial statements of the Long-Term Employment Benefits Fund for 2022 in accordance with the Law on the National Audit Office[1] and the Law on Public Sector Accountability[2]. The audit was carried out in accordance with International Standards on Supreme Audit Institutions, which include International Standards on Auditing. The audit report presents only the matters identified in the audit, while independent opinions on sets of financial and budget execution reports are expressed in the audit opinion. The scope of the audit and the methods used are described in more detail in Annex 1 “Scope and Methods of the Audit” (pages 12-13).

Purpose of the Long-Term Employment Benefits Fund

The purpose of the Fund is to provide additional financial guarantees for the payment of long-term employment benefits to persons who have been dismissed pursuant to Article 57 of the Labour Code (at the initiative of the employer without the employee's fault) and whose employment relationship with the same employer has lasted for more than five years, and for the payment of sanction imposition benefits (paid until 31 December 2021) to dismissed employees whose employers registered in the jurisdiction of the Republic of Lithuania have been subjected to sanctions by the European Union pursuant to. Council Regulation (EC) No 765/2006 of 18 May 2006 concerning restrictive measures against Belarus[3] . The Fund is administered by the Board of the State Social Insurance Fund (SSIF) and other administrative bodies of the SSIF[4] , which, in accordance with the procedure laid down in the Regulations, take decisions on the granting and payment of benefits for long-term employment and sanctions, and carry out the other functions entrusted to them in the administration of the Fund[5] .

The Fund's resources in 2022 were used in accordance with the estimates of the Fund for 2022 approved by the Seimas of the Republic of Lithuania[6] . The Ministry of Finance is responsible for the management of the temporarily unrestricted monetary resources of the Fund and for taking investment decisions[7] .

In accordance with the Law on Public Sector Accountability [8] , the Fund is a public sector entity whose financial statements are drawn up in accordance with this Law[9] and the

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[1] Law on National Audit Institution, Article 8(2)(4) (version in force until 31.12.2022).

[2] Law on Public Sector Accountability, Article 30(2)(4) and (3) (version in force until 31.12.2022)

[3] Law on Guarantees for Employees in the Event of Employer Insolvency and Long-Term Service Allowances, Art. 1(1), 9, 9[1] and 13(1).

[4] Ibid, Art. 13(2).

[5] Ibid, Art. 19.

[6] Law on the Approval of Financial Indicators of the State and Municipal Budgets for 2022, Article 19, Annex 9.

[7] Law on Guarantees for Employees in the Event of Employer Insolvency and on Long-Term Service Allowances, Article 14(4).

[8] Law on Public Sector Accountability, Article 2(19) and Article 22(6) (version in force until 31 December 2022).

[9] Ibid, Art.19(1) and (2), Art.21(1) (version in force until 31 December .2022).

Public Sector Accounting and Financial Reporting Standards (PSAFRS), while the report on the implementation of the Fund's estimates is drawn up in accordance with the Rules for the Preparation of the Statement of Budget Execution of the Resource Funds[10].

The set of annual financial statements of the Fund shall be submitted to the Government by 1 October of the following year at the latest, which shall, having approved it, submit it to the Seimas no later than by 10 October. The National Audit Office shall submit a national audit opinion and an audit report on sets of audited financial statements and budget execution reports no later than by 1 October to the Government and no later than by 10 October to the Seimas[11] .

[10] Order No 1K-461 of the Minister of Finance of 16 December 2014 (wording of Order No 1K-401 of 3 December 2020).

[11] Law on Public Sector Accountability, Article 30(3), Article 32(6) and (7) (version in force until 31 December 2022).

AUDIT RESULTS

1. ASSESSMENT OF THE SETS OF REPORTS OF THE FUND

1.1. The set of financial statements contains material misstatements

1. Public sector entities are required to maintain their accounting records in accordance with the Law on Public Sector Reporting and the Public Sector Accounting and Financial Reporting Standards (PSAFRS). The administrator of the Long-Term Employment Benefits Fund (LTEBF) did not apply the IFRS in all cases: we identified material misstatements[12] in the statements of financial position (current liabilities, accumulated surplus or deficit items), the statements of activities (social benefit costs, operating surplus or deficit, net surplus or deficit items) and the statements of changes in net assets (net assets for the period, and accumulated surplus or deficit) and the related notes to accounts (pages 2 to 9) that have affected the auditor's opinion. We also present in this report misstatements and disclosure deficiencies identified that did not affect the auditor's opinion but should be taken into account in the preparation of the Fund's statements for other accounting periods (pages 10 to 12). All identified misstatements were communicated to the SSSF Board in writing during the audit[13] . The impact of the identified misstatements is presented in Annex 2 (pages 14-15).

Corrective action has been taken, but deficiencies remain due to the registration of costs in the wrong accounting period

2. According to Article 9 of the Law on Public Sector Accountability[14] and Article 11 of IFRS[15] , costs are recognised and accounted for in the period in which they are incurred - when the related revenue is earned, i.e. when goods or services are sold or when actions are performed in the exercise of assigned functions, irrespective of time of spending money. These requirements for cost accounting are also set out in the Fund's accounting policy[16] .

3. During our audit of the 2021 IDIF financial statements and budget execution reports[17] , we identified instances where a part of expenditure was recorded in the wrong accounting period and the costs and the related accrued amounts payable were not registered according to the decisions made on the allocation of benefits in 2018-2021. We recommended the SSIF Board

[12] See Annex 1 "Audit scope and methods" to this report.

[13] Letter No SD-(120-9.1.1-E-6163)-784 of the National Audit Office of 1 August 2023.

[14] Law on Public Sector Accountability, Art.9 (version in force until 31.12.2022).

[15] IFRS 11 Costs, page 4.

[16] Order No V-662 of the Director of the SSIF Board of 30 December 2021 (version of Order No V-496 of 28 December 2022).

[17] National Audit Report, 03/10/2022 No FAE-10.

to implement software functionalities[18] in the Benefits Application System or apply other measures to ensure timely and complete transfer of all data on the long-term work and sanction benefit decisions to the Financial Management System.

4. The implementation of the recommendation has led to a positive change in the Fund's accounting: the Fund's administrator assessed the decisions that were not accounted for in the case of benefits awarded but unpaid and has made corrections to the cost and liability data in the accounting for 2022. The Fund administrator informed that it had implemented software changes in July 2023 which should automatically identify benefits awarded but not paid[19].

5. However, comprehensive compliance with the cost accrual principle was not ensured in 2022, as the costs and liabilities for long-term employment benefits were not always recorded in the accounting period in which the decisions to grant them were taken (the decision, as a document supporting the economic operation and containing all the required elements, acquires legal effect when it is recorded in the DVM). We found that 13 decisions adopted in 2022 were accounted for in 2021 (reducing social benefit costs for 2022 by EUR 37,800) and 101 decisions adopted in 2023 accounted for in 2022 (increasing social benefit costs for 2022 by of EUR 241,700). The Fund intends to consider making software changes to the Benefits Application System that would transfer cost entries to the Financial Management System based on the date of adoption and recording of benefit decisions, thus ensuring that all the Fund's benefit costs are accounted for and that the accrual principle is followed in its full extent.

6. For these reasons:
   - the balance of current liabilities was increased by EUR 203,9 thousand in the statement of financial position according to data of 31. December 2022 under item E.II.10 'Accrued payables' (EUR 381,000) reducing accumulated surplus or deficit under item F.III “Accumulated surplus or deficit” by this amount (EUR 146,057.5);
   - social benefit costs from operating activities were increased by EUR 203,900 (EUR 9, 960,100) according to data of 31 December 2022 in the performance report for the period under review under item. B.II "Social benefits", while the surplus or deficit in the operating activities in the items C. "Surplus or deficit on operating activities" (EUR 24,609,500), G. "Net surplus or deficit before the effect of the equity method" (EUR 24,372,700), and I. "Surplus or deficit on operating activities" (EUR 24,372,700) were reduced by EUR 203,900;
   - the surplus and net assets were reduced by EUR 203,900 in line 16 of the statement of changes in net assets according to data of 31 December 2022 "Net surplus or deficit for the period" and line 17 "Balance as of 31 December 2022" (columns 8 and 9);
   - the notes to accounts respectively present incorrect information on the Fund's costs, accrued liabilities and surplus (notes 9, 10, 13 and P2, P17, P24).

[18] Letter No SD-(120-9.1.1-E-6119)-496 of the National Audit Office of 17 June 2022

[19] Letter No (1.78E) I-9920 of the SSIF Board of 16 August 2023

Provisions were calculated without following the description of their calculation procedure

7. Pursuant to Article 10 of the Law on Guarantees for Employees in the Event of Employer Insolvency of their Employer and Long-Term Service Allowances, an obligation to pay long-term employment benefits to dismissed persons referred to in Article 9 of the Law arises, and therefore the Fund records a provision for long-term employment benefits in accordance with its accounting policies. Their calculation is governed by the Description of the Procedure of Calculation of Provisions[20]. The Description used to calculate IDIF provisions as of 31 December 2022 was revised in light of the comments made during the previous IDIF audit[21], changing: the calculation of the average minimum salary (AMS)[22].

8. We found that provisions were calculated without observing provisions of the said description[23] - the wrong period of insurable earnings was chosen for the calculation of AMS of employees (insurable earnings of the month of dismissal of the employee were wrongly included), as all the necessary changes to the functionalities of the management information system for the calculation of provisions were not carried out after the revision of the description of the procedure of the IDIF provisions calculation. As a consequence, the calculated AMS of individuals, which affects the AMS of the seniority group of individuals, was increased, and correspondingly higher provisions and social benefit costs were calculated and recorded.

9. Taking into account the discrepancies found during the audit and to determine the exact impact of the distortions on the Fund's financial statements, the SSIF Board made changes to the information system and recalculated provisions. After assessing all these:

   - the balance of current liabilities was increased in the statement of financial position according to data of 31 December.2022 by EUR 70,500 in the balance of current liabilities under Article E.II.1 'Current year's share of non-current provisions and current provisions' (EUR 298,400), also reducing the balance by EUR 146,057,500 under Article F.III 'Accumulated surplus or deficit';
   - the cost of social benefits in the operating activities was increased by EUR 70,5 thousand (EUR 9,960,100) in the performance report according to data of 31 December 2022 for the period under review under clause B.II "Social benefits", while items C. "Surplus or deficit on operating activities" (EUR 24,609,500), H. "Net surplus or deficit before the effect of the equity method" (EUR 24,372,700), and J. "Surplus or deficit on operating activities" (EUR 24,372,700) were decreased by the same amount;
   - the surplus and net assets were reduced by EUR 70,500 according to data of 31 December 2022 under line 16 of the statement of changes in net assets as of 31.12.2022 "Net surplus or deficit for the period" and line 17 “Balance as at 31 December 2022” (columns 8 and 9);

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[20] Order No V-54 of the Director of the SSIF Board of 8 February 2023.

[21] Letter No SD-(120-9.1.1-E-6119)-745 of the National Audit Office of 21 July 2022.

[22] The AMS is calculated on the basis of the person's insurable earnings in the 12 months preceding the month of dismissal, excluding the month of dismissal and any period during which the person did not receive insurable earnings.

[23] See pages 5, 6 and 7 of the Description of the Procedure of Calculation of Provisions.

- accordingly, the notes to accounts contain incorrect information on the Fund's expenses, short-term provisions and surplus (notes 2, 8, 10 and 13 and P15).

Other deficiencies in disclosure

10. In the Fund's cash flow statement, receipts of interest on the balance of funds kept at the Bank of Lithuania for the reporting period were unduly offset against interest payments[24] in violation of IFRS[25].

11. The reasons for significant changes in the amounts of items in the financial statements during the period are not disclosed in the notes to accounts. IFRS 1[26] states that the appropriateness of financial statements for the decision-making of its users depends not only on the content of the information but also on materiality. A public sector entity determines in its accounting policies the materiality criterion to be applied, taking into account both the nature of the transaction and the amount. Details of the items for which amounts are material, if not required by the IFRS, should be disclosed separately in the notes to accounts. Clause 15 of IFRS 6 states that if the amounts of items in the financial statements for a reporting period have changed significantly from the previous reporting period, the reasons for those changes should be stated. In light of the materiality criterion applied in the Fund's accounting[27] , the changes in the amounts in the statement of financial position, items C.III.6 “Other receivables” and A.II.10 “Accrued payables” are material, but no information is given in the notes to accounts as to the reasons for that[28] . The reasons for recognising depreciation of receivables for which depreciation has been recognised are not stated as required by IFRS 17[29] .

12. The expenses provided in Annex P23 “Income and expenses from financial and investment activities” of the notes to accounts (lines 2.2 to 2.4) do not correspond to the accounting data as they are incorrectly broken down according to their content.

1.2. The set of budget execution reports is correct in all material respects

13. According to data on the report of implementation of the estimates of the Long-Term Employment Benefits Fund for 2022, the Fund received revenue of EUR 34,590,300 and incurred expenditure of EUR 11,229,800 in 2022. While the data in this set are correct in all material

[24] For this reason, the Fund's cash flow statement as of 31.12.2022, Article A.I.5. "The cash flows shown in A.III.3 'Interest received' (EUR 0.1 thousand) and A.III.3 'Interest paid' (EUR 549.1 thousand) are reduced by EUR 6.6 thousand and the notes to accounts contain incorrect information on the Fund's cash flows (unnumbered note).

[25] IFRS 1 Presentation of Information in a Set of Financial Statements, page 39 and IFRS 5 Statement of Cash Flows, pages 17.5 and 19.11.

[26] IFRS 1 Presentation of information in a set of financial statements, paragraphs 35, 37 and 38.

[27] The accounting policy of the IDIF approved by Order No V-662 of the Director of the SSIF Board No V-662 of 30 December 2021 (wording of Order No V-496 of 28 December 2022), clause 110[1], stipulates that the materiality criterion applied for accounting purposes shall be 0.1% of the value of the assets of the IDIF of the financial year. As of 31 December 2022, the assets of the Fund amounted to EUR 146,784.4 thousand and the materiality criterion applied for the purposes of the reporting is EUR 146,8 thousand.

[28] Other receivables (Article C.III.6 of the statement of financial position) increased by EUR 270,8 thousand, mainly due to interest receivable on investments of EUR 244,4 thousand, while accrued payables (Article E.II.10 of the Statement of Financial Position) increased by EUR 291,2 thousand.

[29] IFRS 17 Financial Assets and Financial Liabilities, clause 95.2.

respects[30] , we draw attention to the identified distortions and disclosure deficiencies, which do not have an impact on the opinion, but should be taken into account in the preparation of reports for other accounting periods.

14. Pursuant to the requirements of the Rules on the Preparation of a Set of Budget Execution Reports of the Resource Funds[31] , one of the aims of its preparation is to indicate the reasons for the non-implementation of the estimates of the Resource Fund and/or significant differences in the execution of the estimates compared to the approved estimates and the execution of the estimates of the previous accounting period. This information is to be presented in the notes to accounts. These notes to accounts do not disclose the reasons for the significant differences in the execution of the estimate of the Fund's temporarily unavailable investment expenses [32] and the increase in the expenses for employee benefits. Observations on the reasons for non-disclosure were also made during previous IDIF audits.

15. The distortions identified in the cash flow statement in the Fund's set of financial statements (paragraph 1.1, page 10 of the report) also affect the figures presented in the set of budget implementation reports[33] .

2. UNIFIED PRINCIPLES FOR THE BUDGETING OF STATE SOCIAL FUNDS

16. In the implementation of the recommendations made by the National Audit Office in 2018-2019[34] , the principles of budgeting and approval of the State Social Funds - the State Social Insurance Fund, the Guarantee Fund and the Long-Term Employment Benefits Fund - have been unified. On 23 May 2023, the Law amending the Law on the Structure of the Budget of the State Social Insurance Fund was adopted[35] , according to which the budgets of all the state social funds shall be drawn up on an accrual basis and approved by a single law. In the implementation of the new provisions of the law, the Rules for the Establishment and Implementation of the Budgets of the State Social Funds[36] , the new

[30] See Annex 1 "Audit scope and methods" to this report.

[31] Order of the Minister of Finance No 1K-461 of 16 December 2014, p. 5.4 and 13.

[32] According to the data in the Statement of Execution of the Estimates of the Fund's resources, in 2022, the expenditure on the investment of temporarily unrestricted resources (Art. III.3) amounted to EUR 549.1 thousand, which is 4.6 times higher than planned (EUR 120.0 thousand), and the expenditure on employee benefits (Art. III.1) in 2022 amounted to EUR 10,472.1 thousand, which is 1.5 times higher than 2021 (EUR 6,982.3 thousand).

[33] For the reasons stated above, the amounts of Article II.2 "Income from the investment of temporarily unrestricted funds of the Long-Term Employment Benefits Fund" and Article III.3 "Expenditure on the investment of temporarily unrestricted funds" of the Statement of Implementation of the Fund's Estimates as at 31.12.2022 were reduced by EUR 6,600.

[34] National Audit Report "Assessment of the correctness of the consolidated sets of financial statements and budget execution reports of the State Social Insurance Fund for 2017, as well as the legality of the management, use and disposal of funds and assets", No FA-2018-P-6-4-8-1. Of 1 October 2018. The planned deadlines for the implementation of the recommendations are 30 June 2020 and 31 December 2020. National Audit Report "Assessment of the correctness of the consolidated sets of financial statements and budget execution reports of the State Social Insurance Fund for 2018 and the legality of the management, use and disposal of funds and assets", 30 September 2019, No FA-2. The planned deadline for the implementation of the recommendation is 31 December 2020.

[35] Law Amending Law No. IX-547, 23 May 2023, No. XIV-1966.

[36] Order of the Minister of Social Security and Labour No A1-461 of 13 July 2023.

version of the Descriptions of the Procedures for the Planning and Classification of the Budgets of the State Social Funds and the Supplementary Tables were approved[37] .

17. In 2024, the budgets of the State Social Funds will already be formed on the accrual basis, but for the reporting for, the SSIF Board will still submit two sets of the same accrual-based accounts for the State Social Funds (a set of financial statements and a set of budget implementation reports), as the Ministry of Finance has not yet developed amendments to the IFRS governing the disclosure of budget implementation data in the annual set of statements. The Ministry of Finance plans to[38] develop a separate standard for public social funds by the end of 2023, but its provisions are expected to be applied for the 2025 reporting year as the VSAKIS still needs to be adapted to consolidate these sets into the national set of financial statements.

Auditor General Mindaugas Macijauskas

[37] Orders of the Director of the SSIF Board: No V-273 of 30 June 2023 and No V-291 of 10 July 2023.

[38] Information provided by the Ministry of Finance on 10 August 2023.