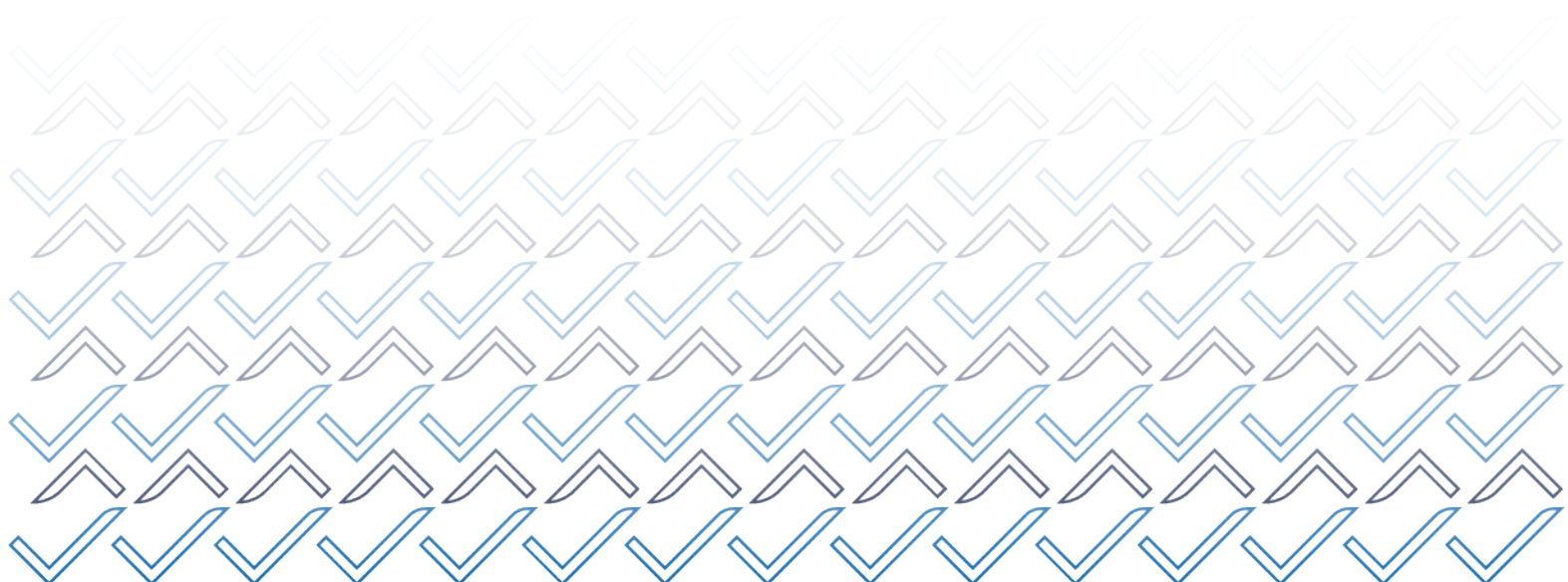


PUBLIC AUDIT REPORT

RESULTS OF FINANCIAL AUDIT OF THE SETS OF FINANCIAL STATEMENTS AND BUDGET EXECUTION REPORTS OF THE GUARANTEE FUND FOR 2022

29 September 2023

No. FAE-8



The National Audit Office is the supreme audit institution, which monitors the legality and efficiency of the management and use of state assets and the implementation of the state budget. By providing audit observations and recommendations, the National Audit Office promotes a positive and effective impact of public audit on the public financial management and control system and on results-oriented and public-oriented public governance. For more information on the activities of the National Audit Office and the results of the public audit, please visit www.valstybeskontrole.lt.

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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 Fund Insurance Board under the Ministry of Social Security and Labour.

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INTRODUCTION

Objective and scope of the audit

We conducted a financial audit of the financial statements and budget execution reports of the Guarantee Fund for 2022 in accordance with the Law on the National Audit Office¹ and the Law on Public Sector Accountability². The audit was carried out in accordance with the International Standards on Auditing for Supreme Audit Institutions, which include International Standards on Auditing. The audit report presents only the matters identified in the audit and the independent opinions on the financial statements and the budget execution reports of the Guarantee Fund are expressed in the audit opinion. The scope of the audit and the methods used are described in more detail in the Annex 'Scope and Methods of the Audit' ([pages 10-12](#)).

Purpose of the Guarantee Fund

The Guarantee Fund is a pool of public resources designed to provide guarantees to employees in the event of their employer's insolvency³. Guarantees for employees are provided through the allocation and payment of benefits from this Fund. This public sector entity⁴ is administered by the State Social Insurance Fund Board (hereinafter – the SSIF) and by other SSIF administrative institutions⁵. The Ministry of Finance is responsible for the management of the temporarily free money of the Guarantee Fund and for taking investment decisions⁶.

The State Tax Inspectorate, the State Enterprise Turto Bankas and the Employment Service under the Ministry of Social Security and Labour also participated in the activities of the Guarantee Fund in 2022 and provided information for the preparation of the Fund's reports. The Inspectorate administered the contributions calculated until 31 December 2017. SE Turto Bankas administered the claims transferred by the Guarantee Fund until 1 January 2017 on the uncollected money for the payment of benefits from the Fund to the employees of bankrupt enterprises. The Employment Service was involved in the procedures relating to the payments from the Guarantee Fund during the emergency situation and the quarantine (repayment of benefit overpayments and refund of funding amounts).

The financial statements of the Fund are drawn up in accordance with the Law on Public Sector Accounting⁷, the Public Sector Accounting and Financial Reporting Standards, while the report on the implementation of the Fund's estimates is drawn up in accordance with the Rules for the Drafting of a Set of Budget Execution Reports of the Resource Funds⁸. The

¹ Law on National Audit Office, 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 Insolvency of their Employer and Long-Term Employment Benefits, Art. 4(1), Art. 3.

⁴ Law on Public Sector Accountability, Article 2(19) and Article 22(6) (version in force until 31.12.2022).

⁵ Law on Guarantees for Employees in the Event of Insolvency of their Employer and Long-Term Employment Benefits, Art. 4(2).

⁶ Ibid, Art. 5(4).

⁷ Law on Public Sector Accountability, Articles 19(1) and (2), 21(1) (version in force until 31.12.2022).

⁸ Order No 1K-461 of the Minister of Finance of 16 December 2014 "On the Approval of the Rules for the Preparation of the Set of Budget Execution Reports of the Resource Funds".

set of annual financial statements of the Fund shall be submitted to the Government no later than 1 October of the following year and, after approval of the statements, it shall be submitted to the Seimas no later than by 10 October. The National Audit Office shall submit public auditor's reports and audit reports on the 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 Seimas⁹.

⁹ Law on Public Sector Accountability, Article 30(2)(4) and (3), Article 32(6) and (7) (version in force until 31 December 2022).

AUDIT RESULTS

1. ASSESSMENT OF THE SETS OF STATEMENTS OF THE FUND

1.1. The set of financial statements is correct in all material respects

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 (hereinafter – PSAFRS). We have not identified any material misstatements in the Fund's set of financial statements for 2022, which are correct in all material respects¹⁰, but we note instances of non-compliance or incomplete compliance with the PSAFRS that should be taken into account in the preparation of the Fund's statements for the next reporting periods. The SSIF Board was informed in writing of all misstatements identified during the audit¹¹.

Positive developments in the Fund's accounting: the accounting policy was revised and systemic accounting errors were corrected before the preparation of the sets

2. In 2022, we found¹² that the Fund's accounting policy and the provisions of PSAFRS 11¹³ (which require that costs are recognised and recorded in the period in which they were incurred) were not followed, as part of the social benefit costs and the related accrued payables were not recorded in the accounts. The recommendation made to the SSIF Board¹⁴ relates to the accounting of all costs under the decisions made for the allocation of the benefit. In the implementation of the recommendation, the unregistered costs and accrued payables of 2021 and 2022 were accounted for,¹⁵ and in July 2023, a software was installed, which automatically identifies the non-retirement benefits awarded but not paid and ensures that all costs and liabilities are recorded in the accounts in the respective period, based on the information provided by the SSIF Board¹⁶. Given that the necessary functionalities have been implemented, we consider the recommendation implemented.

¹⁰ See Annex "Audit scope and methods" to this report.

¹¹ Letter No SD-(120-9.1.1-E-6164)-815 of 14 August 2023.

¹² Public Audit Report No FAE-9 of 3 October 2022 "Results of the financial audit of the sets of financial statements and budget execution reports of the Guarantee Fund"

¹³ IFRS 11 "Costs", Section 4.

¹⁴ In order to ensure correct accounting of social benefit costs, we recommended to the SSIF Board (letter No SD-(120-9.1.1-E-6117)-764 of 27 July 2022) to implement functionalities in the Benefits Application System or to select other measures to ensure timely transfer/recording in the Financial Management System of the data on the decisions taken regarding the allocation of benefits to the employees of companies in bankruptcy, insolvency or liquidation due to bankruptcy.

¹⁵ On the basis of the certificates (certificate No F-2-22E-28 "Guarantee Fund costs not included in the payment list during 2022" of 1 February 2023 and certificate No F-2-22E-26 "Guarantee Fund costs not included in the payment list during 2021- 2022" of 27 January 2023), the costs and accrued payables recorded in the accounts amounted to EUR 333,200.

¹⁶ By e-mail of 5 September 2023, by letter No (1.78E) I-10985 of 13 September 2023 and by e-mail of 20 September 2023.

3. We found that the write-off of benefits payable of the Fund (upon termination of the liability) is recorded with incorrect accounting entries¹⁷, and therefore we recommended that the SSIF Board¹⁸ revises the Fund's accounting policy to provide for a method of accounting for such transactions that is in line with IFRS. The recommendation was implemented: the accounting policy was revised and the necessary adjusting entries were made in the accounts before preparing a set of statements for 2022.
4. We found that the Fund's accounting policies do not set out the specific criteria, characteristics and methods of assessment for recognising provisions and classifying them as liabilities¹⁹. All of the Fund's liabilities arise from occurred binding events that have a definite payment date and the amount can be accurately measured, so the provisions recorded in the Fund's accounts do not meet the criteria for recognising provisions²⁰. In order to correctly account for the Fund's liabilities, we recommended²¹ that the SSIF Board assesses the compliance of the provision recognition criteria with IFRS and, based on the results of the assessment, adjusts or supplements the Fund's accounting policies, and makes the necessary adjusting entries in the books in accordance with IFRS 7- "Accounting Policies, Changes in Accounting Estimates and Correction of Errors". Given the fact that the accounting policies were revised and the necessary adjusting entries were made in the accounts before preparing the set of statements for 2022, we consider the recommendation to have been implemented.

The cash flow statement contains deficiencies

5. Pursuant to requirements of IFRS 12²², cash inflows and outflows are presented separately in the financial statements and offset only if another IFRS requires or permits offsetting. IFRS 5²³ specifies that other inflows include, inter alia, amounts received in error and other outflows include amounts paid in error. Without following these provisions, the inflows and outflows of the Fund received in error were offset and the difference was attributed to an incorrect line item in the cash flow statement²⁴. Also, in violation of the provisions of this standard²⁵, the

¹⁷ Debiting accrued social benefits payable and crediting the cost of writing off social benefits, by recording write-off transactions without taking into account circumstances where the cost of those benefits and the related accrued amounts payable had not previously been recorded in the accounts when the decision to grant the benefit was taken. This was in breach of the requirement of paragraph 4 of PSAFRS 11, which states that all costs should be recorded when they are incurred (i.e. when the decision to grant the benefit is taken), and was an unjustified application of paragraph 12.8 of the same PSAFRS, which led to the recording of the cost of the write-off of the benefits in the 'Depreciation and write-offs' expense item in B.I. of the statement of performance, whereas it should have been recorded in the cost item of B.II. "Social Benefits" (reducing social benefits costs).

¹⁸ Letter No SD-(120-9.1.1-E-6164)-1263 of 29 December 2022.

¹⁹ The requirements to provide such information are set out in Paragraphs 5.1 to 5.3 of the Description of the Procedure for the Organisation of Accounting of Public Sector Entities approved by Order No 1K-170 of 25 May 2005 of the Minister of Finance (wording of Order No 1K-298 of 28 August 2018).

²⁰ Pursuant to paragraph 3 of PSAFRS 2, a provision is a liability for which the amount or timing of settlement cannot be measured reliably. PSAFRS 18 sets out the requirements for the recognition, measurement, recording and presentation of provisions in the financial statements. Recommendations No SR-1/2022-08 'On the Financial Accounting for Provisions, Contingent Liabilities and Contingent Assets' (wording of 31 August 2022) prepared by the Ministry of Finance provide, inter alia, clarification of both the criteria for recognising provisions and the distinction between liabilities based on certainty.

²¹ Letter No SD-(120-9.1.1-E-6164)-140 of 1 February 2023.

²² PSAFRS 1 'Presentation of Information in a Set of Financial Statements', paragraph 39.

²³ PSAFRS 5 'Statement of Cash Flows', paragraphs 17.6 and 19.12.

²⁴ For the reasons stated above, Item III.2 'Acquisition of other services' in the Fund's cash flow statement as of 31 December 2022 is overstated by EUR 4,000, Item A.I.6 'Other receipts' is understated by EUR 22,800 and Item III.4 'Other disbursements' is understated by EUR 26,800.

²⁵ PSAFRS 5 'Statement of Cash Flows', paragraphs 17.5 and 17.6.

Fund's interest and default interest on late social contributions were shown in the wrong item²⁶ of this statement.

Notes to accounts do not disclose all the mandatory information

6. Pursuant to the accounting policies of the Guarantee Fund²⁷ and provisions of IFRS 7²⁸, changes in accounting policies are accounted for in the financial statements in application of the retrospective method, i.e., the new accounting policies are applied as if they had always been used, and therefore the changed accounting policies are applied to transactions and events as they occur. Having changed the accounting policy, notes to accounts must disclose the reason for the change in the accounting policy, the items in the statements of financial position and performance affected by the change and the amounts of adjustment of those items.²⁹ We found that the Annex to the notes to accounts "Effects of changes in accounting policies and corrections of errors on the items in the statement of financial position" did not disclose the change in accounting policy relating to the transfer of short-term provisions to amounts payable to budgets and funds, and accrued liabilities (Section 4, page 6), while having made corrections through the change in accounting policy, reclassification of the cost of the write-off of social benefits was not disclosed in the Annex "Impact of changes in accounting policy and corrections of errors on items of the performance report"(Section 3, page 6).
7. We note that the observations made during the following in previous audits remain unfixed: the cash flow statement is not detailed³⁰; information on receivables is not disclosed or is disclosed incorrectly³¹; the reasons for the significant³² changes compared to the previous period are not always disclosed³³.

²⁶ It was shown in the statement of cash flows under item A.I.6 "Other revenue", while it should have been shown under item A.I.5 "Interest received".

²⁷ Accounting Policy of the Guarantee Fund, 27 December 2016, No V-692 (wording of 30 March 2023, Order No V-120), p. 104.

²⁸ PSAFRS 7 'Accounting Policies, Changes in Accounting Estimates and Errors', paragraphs 3.7 and 10.1.

²⁹ Ibid, pp. 24.1 and 24.2.

³⁰ Paragraph 4 of PSAFRS 6 states that the notes shall provide such detail as is necessary for a fair understanding of the information presented in the cash flow statement. We found that the notes do not provide any information on the amounts disclosed in the cash flow statement, thus failing to ensure that the user of the statement can correctly understand the content of the amounts disclosed.

³¹ Pursuant to requirements of paragraphs 86, 93 and 95.2 of AASB 17, a public sector entity with financial assets shall disclose in the notes to the financial statements both the cost and the carrying amount of receivables receivable after one year, by repayment period, as at the last day of the reporting period, in the prescribed format (as set out in Appendix 6 to AASB 17), and the reasons for recognising the impairment of the receivable. The Fund's notes do not provide information on receivables due after one year by repayment period and the current year's share of the receivables in accordance with the required format, information on the depreciation expense of EUR 14,9 thousand for contribution receivables and EUR 55,3 thousand for depreciation expense of EUR 55,3 thousand for contribution receivables. In Annex P10 'Information on receivables receivable within one year', the information on receivables for the current and previous accounting periods is incorrect: receivables receivable within one year (columns 3 and 6 of row 1) are not stated at acquisition cost, but rather at estimated depreciation, and row 2 does not show the depreciation of these receivables respectively.

³² The materiality criterion applied in the Fund's accounting is 0.1% of the value of the Fund's assets for the financial year.

³³ In accordance with the requirements of paragraph 15 of PSAFRS 6, the reasons for any material change in the amounts of items in the financial statements compared with the previous reporting period shall be disclosed in the notes to accounts. We found that the reasons for the significant change in the amounts of the items in the financial statements were not disclosed in the notes: tax and social contribution income increased by EUR 4 967.84 thousand or 16.7%, non-current financial assets decreased by EUR 330.58 thousand or 40.1%, etc.

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

8. According to data of the set of budget implementation reports of the Fund as at 31 December 2022, the Fund earned EUR 35,428,300 in revenue and incurred EUR 14,900,600 in costs. While this set is correct in all material respects³⁴, we want to point to disclosure weaknesses identified that do not affect the auditor's opinion and which should be taken into account in the preparation of the Fund's reports for other accounting periods.
9. Pursuant to the requirements of the Rules on the Preparation of a Set of Budget Execution Reports of the Resource Funds³⁵, one of the aims of its preparation is to provide 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 to 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 a significant³⁶ increase in the amounts received from employers to meet the claims of the administrator of the Guarantee Fund³⁷ compared to the previous accounting period and to the approved estimate. Observations on the non-disclosure of the reasons were also made in the previous year's national audit.

2. UNIFIED PRINCIPLES FOR THE BUDGETING OF STATE SOCIAL FUNDS

10. As part of the implementation of the recommendations made by the National Audit Office in 2018-2019³⁸, 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 adopted³⁹, according to which the budgets of all the state social funds in 2024 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 Execution of the Budgets of the State Social Funds⁴⁰, the

³⁴ See Annex "Audit scope and methods" to this report

³⁵ Order No 1K-461 of the Minister of Finance of 16 December 2014, p. 5.4, 13.

³⁶ The materiality criterion used in the Fund's accounting is 0.1% of the value of the Fund's assets for the financial year. In 2022, it amounted to EUR 133.460.

³⁷ EUR 290.500 compared to 2021, or EUR 613.100 compared to the approved estimate.

³⁸ Public Audit Report "Assessment of the regularity of 2017 sets of consolidated financial and budget execution statements, and legality of management, use and disposal of funds and property of the State Social Insurance Fund", 1 October 2018 No FA-2018-P-6-4-8-1. The planned deadlines for the implementation of the recommendations are 30 June 2020 and 31 December 2020. Public Audit Report "Assessment of the regularity of 2018 sets of consolidated financial and budget execution statements, and legality of management, use and disposal of funds and property of the State Social Insurance Fund", 30 September 2019, No FA-2. The planned deadline for the implementation of the recommendation was 31 December 2020.

³⁹ Law Amending the Law No IX-547 on the Structure of the Budget of the State Social Insurance Fund, 23 May 2023, No IV-1966.

⁴⁰ Order of the Minister of Social Security and Labour No A1-461 of 13 July 2023.

new 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 approved⁴¹.

11. Although the budgets of the State Social Funds will already be drawn up on the accrual basis in 2024, the SSIF Board will still submit 2 sets of the same accrual-based State Social Fund reports (a set of financial statements and a set of budget execution reports), as the Ministry of Finance has not yet prepared amendments to the PSAFRS governing the disclosure of budget execution data in the annual set of financial statements. The Ministry of Finance plans to⁴² 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

⁴¹ Order No V-273 of 30 June 2023 and Order No V-291 of 10 July 2023 of the Director of the SSIF Board.

⁴² Information provided by the Ministry of Finance on 10 August 2023.

