PUBLIC AUDIT REPORT

RESULTS OF FINANCIAL AUDIT OF THE SETS OF FINANCIAL STATEMENTS AND BUDGET EXECUTION REPORTS OF THE RESERVE/STABILITY FUND FOR 2022

29 September 2023

No. FAE-9

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 execution 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, and the Ministry of Finance of the Republic of Lithuania.

CONTENTS

INTRODUCTION

Objective and scope of the audit

We conducted an audit of the sets of financial statements and budget execution reports of the Reserve/Stabilization Fund (the Fund) for 2022 in accordance with the Laws on the National Audit Office[1] and the Law on Public Sector Accountability[2].

The audit was conducted in accordance with International Standards of Supreme Audit Institutions, which include International Standards on Auditing. The audit report presents only the matters identified in the audit and the independent opinion on the Fund's financial statements and the budgetary execution reports is expressed in an audit opinion.

The scope of the audit and the methods applied are described in more detail in Annex "Audit scope and methods" to the report (pages 8-9).

Purpose of the Reserve (Stabilisation) Fund

[3]The Reserve (Stabilisation) Fund is the monetary fund of the State, the purpose of which is to accumulate the monetary resources of the State necessary to finance State budget expenditures, in accordance with the procedure laid down in the Constitutional Law on the Implementation of the Fiscal Treaty of the Republic of Lithuania, in the event of exceptional circumstances, for the construction of a deep repository for radioactive waste, management of radioactive waste and fulfilment of the State's financial obligations related to the public debt, the implementation of the policy of the European Union and/or of treaties or agreements related thereto (in a refundable manner).

According to the Law on Public Sector Accountability[4], this Fund is a public sector entity managed by the Ministry of Finance[5] . The Ministry maintains the accounts of the Fund

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[1] Law on National Audit Institutions, Article 8(2)(4) (version in force until 31 December 2022).

[2] Law on Public Sector Accountability, Article 30(2)(4) (For2023, the reporting of resource funds shall be prepared in accordance with the Law on Public Sector Accountability in force prior to the entry into force of Law XIII-3308 and shall be submitted in accordance with the reporting deadlines set out in the Annex to the Law on Public Sector Accountability, Article 1 of the Law (No XIII-3308). Other provisions of Law XIII-3308 shall apply to the sets of statements of the Resource Funds for the accounting period 2024 and subsequent accounting periods).

[3] Regulations of the Reserve (Stabilisation) Fund approved by Resolution No IX-912 of the Seimas of the Republic of Lithuania of 30 May 2002, clause. 2 (provisions of Resolution No IX-912 of the Seimas of the Republic of Lithuania "On Approval of Regulations of the Reserve (Stabilization) Fund", in force until the entry into force of the Resolution No XIII-3317 of 30 May 2002 (1 January 2023) shall apply to the preparation of the sets of statements for the accounting periods up to the year 2024).

[4] Law on Public Sector Accountability, Article 2(19) and Article 22(6) (The sets of financial statements of the Resource Funds for 2023 shall be drawn up in accordance with the Law on Public Sector Accountability in force prior to the entry into force of Law XIII-3308 and shall be submitted in accordance with the reporting deadlines laid down in Annex to the Law on Public Sector Accountability set out in Article 1 of that Law (XIII-3308). The other provisions of Law XIII-3308 shall apply to sets of financial statements of the Resource Funds for the accounting period 2024 and subsequent accounting periods).

[5] Regulations of the Reserve (Stabilisation) Fund approved by the Seimas Resolution No IX-912 of 30 May 2002, clause 4 (the prepared sets of financial statements for the reporting periods up to 2024 shall be subject to the

separately from its own accounts as appropriations manager[6] . The financial statements of the Fund are drawn up in accordance with the Law on Public Sector Accountability[7] and the Public Sector Accounting and Financial Reporting Standards, and the report on the implementation of the Fund's estimates is drawn up in accordance with the Rules for the Preparation of a Set of Budget Execution Reports of the Resource Funds[8]. The Ministry of Finance submits the set of statements to the Government by 1 October, which, having approved the set, shall submit it to the Seimas by 10 October[9]. The National Audit Office shall submit the public auditor's report and the audit report on the audited sets of financial statements and budget execution reports to the Government no later than by 1 October and to the Seimas – by 10 October[10].

The sources of the Fund[11] are 50% of the receipts to the State budget:

- ✓ funds from the privatisation of the State's shareholdings in accordance with the law;
- ✓ dividends;
- ✓ funds from the sale of immovable property of the state and other immovable assets by way of a public auction in accordance with the law;
- ✓ funds from the sale of public land plots.

Also:

- ✓ The Law on the approval of financial indicators of the state budget and municipal budgets for the respective year provides for the transfer to the Fund of surplus state budget and other appropriations;
- ✓ proceeds from the sale of the assets of the State Enterprise Ignalina Nuclear Power Plant;
- ✓ income received from the investment of funds of the Fund for the balance of the Fund's funds in bank accounts, and other lawfully received funds.

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provisions of the Seimas Resolution No IX-912 of 30 May 2002, which were in force prior to the entry into force of the Resolution No XIII-3317 (1 January 2023)).

[6] Ibid, p. 19.

[7] Law on Public Sector Accountability, Articles 19(1) and (2), 21(1) (The sets of financial statements of the Resource Funds for 2023 shall be prepared in accordance with the Law on Public Sector Accountability in force prior to the entry into force of Law XIII-3308 and shall be submitted in accordance with the reporting deadlines laid down in the Annex to the Law on Public Sector Accountability set out in Article 1 of the present Law (No XIII-3308). The other provisions of Law XIII-3308 shall apply to sets of financial statements of the Resource Funds for the accounting period 2024 and subsequent accounting periods).

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

[9] Law on Public Sector Accountability, Article 32(6)(1) and (7) (The sets of financial statements of the Resource Funds for 2023 shall be drawn up in accordance with the Law on Public Sector Accountability in force prior to the entry into force of Law XIII-3308 and shall be submitted in accordance with the reporting deadlines laid down in Annex to the Law on Public Sector Accountability set out in Article 1 of the present Law (No XIII-3308). The other provisions of Law XIII-3308 shall apply to sets of financial statements of the Resource Funds for the accounting period 2024 and subsequent accounting periods).

[10] Ibid, Art. 30(3).

[11] Regulations of the Reserve (Stabilisation) Fund approved by the Seimas by Resolution No IX-912 of 30 May 2002, clause 5 (for the preparation of statements for the reporting periods up to 2024, the provisions of the Seimas by Resolution No IX-912 of 30 May 2002, which were in force prior to the entry into force of the Resolution No XIII-3317 (1 January 2023), shall apply).

AUDIT RESULTS

1. THE SET OF ANNUAL STATEMENTS IS CORRECT IN ALL MATERIAL RESPECTS

1. The sets of financial statements and budget execution reports of the Reserve (Stabilization) Fund for 2022 were prepared and presented in all material respects in accordance with the applicable requirements and present a true and fair view.

2. The plan[12] is to consolidate data of the Fund's reports for the reporting period 2024 into the State's annual statements and to no longer provide a separate set of annual statements of the Fund to the Government and the Seimas[13].

2. IN 2022, THE FUND GREW AT THE RATE OF EUR 70.00 MILLION

3. EUR 70.00 million was added to one of the reserves created to ensure both the stability of the state and the establishment of the repository in 2022. As in previous periods, in 2022, the largest share of the Fund's revenue (EUR 71.61 million) was from dividends received by the State (EUR 43.11 million; 60.19%), proceeds from the sale of state land (EUR 20.62 million; 28.80%), and sale of immovable property (EUR 5.72 million; 7.99%). Its costs of EUR 1.61 million consisted of negative interest.

4. At the beginning of 2022, accruals totalled EUR 412.38 million and at the end of 2022 – EUR 482.39 million (EUR 9.66 million more than planned), of which EUR 42.55 million was accrued at the beginning of 2022 and EUR 61.81 million at the end of 2022 for installing a deep repository for the disposal of radioactive waste and the management of such waste (Figure 1).

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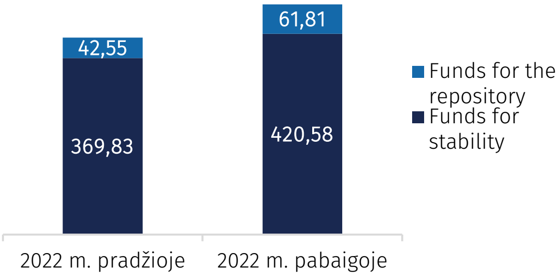
[12] Law on Public Sector Accountability (wording effective from 1 January 2023), Article 2(18); Article 8 of the Law Amending the Law No XIII-3308 Amending the Law on Public Sector Accountability No X-1212 and its Articles 1 and 2 of the Law.

[13] Presenting a separate set of statements of the Fund for the 2023 accounting period to the Government and the Seimas is not planned. The sets of statements of Resource Funds for 2023 are drawn up in accordance with the Law on Public Sector Accountability in force before the entry into force of Law XIII-3308, and are submitted within the deadlines set out in the Annex to the Law on Public Sector Accountability set out in Article 1 of this Law (XIII-3308) (which are not specified in relation to the submission of the set of the Fund to Seimas and the Government).

Figure 1. Funds of the Reserve (Stabilisation) Fund (by purpose) in 2022 (EUR million)



At the beginning of 2022/ At the end of 2022

Source – National Audit Office based on the data of the Fund's estimate implementation report for 2022

5. Taking into account the need for funds, the Ministry of Finance foresees in the draft estimate of the Fund that at least EUR 3 million shall be accumulated annually for the construction of the deep repository for radioactive waste[14] and for the management of radioactive waste. If less funds for the construction of the repository than the amount approved for this purpose in the estimate for that year is accumulated in the Fund's account as at 20 December of the current year, the Treasury Department shall, before the end of the current year, transfer the difference in the funds to the Fund's account for the construction of the repository[15]. In its audit of the decommissioning process of the Ignalina Nuclear Power Plant in 2021[16], the National Audit Office highlighted that the need for funds for the construction of a deep repository amounts to an average of EUR 42.7 million annually. EUR 19.37 million was accumulated for the funding for the repository in 2022 (EUR 0.13 million more than planned due to the proceeds from the sale of the assets of the State Enterprise Ignalina Nuclear Power Plant in the last days of December) and EUR 17.08 million was accrued in 2021[17].

6. The Government Programme foresees[18] to develop a strategy for managing debt of the public sector with a view to returning to optimal debt levels in the long term. We believe that this should include a comprehensive review of the issues of the public funds reserve - the target level, the sources of funding, etc. The Ministry of Finance had planned to prepare such a strategy by Q2 2022[19], but has not done so (for more details, see Public Audit Report No FAE-3 of 29 September 2023, "Results of financial audit of the set of national financial statements and public debt data for 2022").

Auditor General Mindaugas Macijauskas

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[14] Regulations of the Reserve (Stabilisation) Fund approved by Resolution No IX-912 of the Seimas of 30 May 2002, p. 6 (1).

[15] Description of the Procedure for the Management of the Reserve (Stabilisation) Fund approved by Order No 1K-273 of the Minister of Finance of 13-11-2003, p. 19.

[16] Public Audit Report No VAE-4 of 16 June 2021, "Ignalina Nuclear Power Plant Decommissioning Process".

[17] In presence of exceptional circumstances regarding the transfer of 25% of the dividends received by the State budget to the Fund, the Regulations of the Reserve (Stabilisation) Fund approved by the Seimas by Resolution No IX-912 of 30 May 2002, p. 7 and 7(1).

[18] Resolution No XIV-72 of the Seimas of 11 December 2020 "On the Programme of the Eighteenth Government of the Republic of Lithuania", p. 220.4.

[19] Government Resolution No 155 of 10 March 2021 "On the Approval of the Implementation Plan for the Provisions of the Eighteenth Programme of the Government of the Republic of Lithuania", Action No 10.2.12 "Prepare and submit a strategy for the management of public debt together with the Lithuanian Stability Programme for 2022".