# RESULTS OF THE FINANCIAL AUDIT OF THE SET OF THE STATE ACCOUNTS FOR THE YEAR 2023

15 May 2024

No FAE-2

## SUMMARY

### Objective and scope of the audit

We have audited the set of the state accounts for the year 2023 in accordance with the Law on the National Audit Office and the Law on Public Sector Accountability.

The audit was conducted in accordance with the International Standards of 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 29). The audit report presents only the matters identified in the audit and the independent audit opinions on the state annual financial statements and the state budget implementation reports are expressed in the auditor's report.

### Key audit findings

#### 1. Misstatements in the state annual financial statements are material

The availability and openness of quality public sector data enables greater efficiency and inter-institutional cooperation between public administration authorities, increases transparency in government, and promotes citizen involvement in decision-making. One of the fundamental sources of data is the financial data of public sector entities, which is still significantly misstated.

Material misstatements have been identified in the set of annual state financial statements. Some of the data cannot be verified as accurate: mineral resources, receivables within one year, current liabilities, reserves, accumulated surplus or deficit, other operating income, revenue, cash transfers, etc.:

- ✓ We cannot verify the accuracy of 98.35% (EUR 12,474.06 million) of the tax revenue and related receivables and payables due to the persistence during the audit period of circumstances related to deficiencies in the information systems used for accounting (the 2020 recommendation has not been implemented) and to the "duplication" of the amounts, the representation of the amounts in the tax accounts both in the receivables and in the tax refunds ( Section 1, pages 13-14);
- ✓ Thirteen point fifty nine percent (EUR 2,039.85 million) of reserves cannot be verified due to deficiencies in the Ministry of Environment's accounting information on changes in the value of forest land and assets (Section 1, pages 14-15);
- ✓ Forty six point zero five percent (EUR 660.50 million) of the value of mineral resources is incorrect due to an incorrect calculation of the value of underground water by the Lithuanian Geological Survey (Section 1, page 15);
- ✓ We cannot verify the accuracy of the data on museum objects of EUR 314.94 million because museums have not adjusted their fair value, they do not have an analytical accounting register for all the objects they hold, and museum objects have not been inventoried (Section 1, pages 15-16);
- ✓ Assets and, consequently, financing amounts, liabilities and net assets comprising EUR 75.67 million are not accurate because the financial accounting processes and recording of economic transactions of four public sector entities do not comply with the requirements of the Law on Public Sector Accountability and the Public Sector Accounting and Financial Reporting Standards or responsible management of the assets and finances of the entity is not ensured (Section 1, pages 16-17).



## 2. Misstatements in the annual state budget implementation reports are material

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

The set of state budget implementation reports for the year 2023 contains material misstatements:

- ✓ Amounts comprising EUR 606.33 million are shown as EU, other international financial assistance and co-financing money, money from the state budget for the implementation of projects, are incorrectly classified by type of expenditure. This money was used for wages in public sector entities, acquisition of goods and services, long-term assets, etc. and should have been presented under the relevant economic classification items (Section 2, pages 19-20);
- ✓ Amounts comprising EUR 507.11 million for national roads, i.e. assets owned by the state and included in the balance sheet of the Ministry of Transport and Communications, are presented as other expenditure, whereas they should have been presented as expenditure for the construction, repair and maintenance of the assets (Section 2, page 21);

- ✓ Amounts comprising EUR 204.09 million to pay for health care services not covered by compulsory health insurance are presented as grants, whereas they should have been presented as social benefits (allowance); plans for 2024 are correct (Section 2, pages 21-22);

Our audit also assessed the accuracy of the use of representation expenses in the Ministries (accounting for ~40% (EUR 5.69 million out of EUR 14.33 million) of the national representation expenses). The item “Representation expenses” in the set of budget implementation reports of the Ministries is accurate and we did not identify any material errors. However, due to legal ambiguity, representation expenses include staff incentives, expenses of working meetings, operating expenses of the institution, or expenses are classified according to the method of allocation instead of the method of their use.

From 2024, the accounts also include publicity costs, which should include costs of services of informing the public about the activities (functions) of the institution provided by public information producers and multipliers. The practice of public sector entities shows that a clearer distinction between representation and publicity expenses is needed to have comparable data on the nature of expenditure at national level, as, for example, organising a working meeting and a conference-like event, or discussing activities and results with partners, can be understood as both publicity and representation (Section 2, pages 22-23).

In order to implement the principle of legislative clarity that the legal framework should be logical, coherent, concise, comprehensible, precise, clear and unambiguous, and to make the data on the bodies' sets of budget implementation reports comparable, we have recommended that the Ministry of Finance clarify the legal framework for representation and publicity expenses.

The proper allocation of income and expenses to the relevant items in accordance with the approved rules allows for objective, comparable information, which can be understood by users equally, to be available for monitoring and analysing the performance of the bodies.

## 3. We did not assess information from the National Progress Report

The National Progress Report should have been submitted to the National Audit Office for assessment by 20 April 2024, in accordance with the Law on Public Sector Accountability. No data on national progress in 2023 were provided. (Section 3, page 23).

## 4. Significant deficiencies were identified in the organisation of accounting processes

In 2023, a new version of the Law on Public Sector Accountability entered into force, changing the composition, timing and procedure for the annual reports submitted by the Government to the Seimas and approved by the Seimas: the new provisions of the Law allow the results of the Government’s activities to be linked to public financial data and presented to the Seimas during the spring session, together with audit findings. The set of public accounts submitted to the Seimas consists of the sets of annual state financial statements and state budget implementation reports, and the national progress report. The reports were submitted to the National Audit Office without complying with the requirements of the law, thus limiting the auditors’ ability to assess them:

- The submission of the set of annual state financial statements was late (two working days late): due by 20 April 2024, submitted on 24 April 2024 (Section 4, page 25);
- The set of annual state budget implementation reports was submitted on time (18 March 2024) and the revised set was submitted on 23 April 2024. Most of the changes were made to correct misstatements identified during this audit, but there were other changes the content of which was not assessed by the auditors. The total value of the changes (Annex 5) is EUR 44.36 million, which is less than the quantitative materiality applied to the set; therefore, we do not modify our opinion on the changes. Changes to the set are treated as a limitation on the scope of the audit in accordance with ISSAI 2705 “Modifications to the opinion in the independent auditor's report” (Section 4, page 25).
- No national progress report was submitted (Key Audit Result 3).

Another problem is that public sector entities close the general ledger, the summary accounting register, later than they approve the set of financial statements. The closure of the general ledger reflects cumulative performance results and ensures that no new transactions are recorded after the creation of the set of accounts, but there have been cases where entries in the general ledger, which change account balances and/or movements, have been made during a period in which the set of accounts has been approved. We consider the failure to close the general ledger to be a significant deficiency in internal control, which could lead to changes in the accounting data for a period for which the financial statements have already been prepared and approved by the head of the institution (Section 4, pages 24-25).



## Recommendations

### For the Ministry of Finance

1. We recommend assessing the definition and disclosure of representation and publicity expenses in the set of budget implementation reports (Key Audit Result 2) (pages 22-23).

Measures and deadlines for the implementation of the recommendations are set out in the “Plan for implementing recommendations” section of the report (page 26).

Audit procedures were performed in all entities included in the set of annual state financial statements for 2023, of which 49 entities were subject to written observations and recommendations to eliminate accounting deficiencies, to strengthen internal controls, and to investigate the circumstances of accounting.

It is not the first year that we have stressed that the implementation of the recommendations made by the National Audit Office would help the bodies to simplify their accounting processes and to have accurate financial accounting and reporting data. For up-to-date information on the status of the implementation of the recommendations of the National Audit Office of high and medium importance in the second half of 2023, please see the report on the implementation of the recommendations of 8 March 2024[1].

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

[1] No RAE-8 of 8 March 2024. Available online: https://www.valstybeskontrole.lt/LT/post/3136/.