VALSTYBĖS KONTROLĖ
PUBLIC AUDIT

RESULTS OF THE FINANCIAL AUDIT OF THE SET OF ACCOUNTS OF STATE SOCIAL FUNDS FOR 2023

15 May 2024

No FAE-6

SUMMARY

Objective and scope of the audit

We have carried out financial audit of the set of accounts of the state social funds for 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 audit report presents only the matters identified in the audit, while independent opinions on the sets of accounts comprising the annual accounts of the State Social Funds including:

- ✓ the sets of consolidated financial statements and budget implementation reports of the State Social Insurance Fund,
- ✓ the sets of financial statements and budget implementation reports of the Guarantee Fund, and
- ✓ the sets of financial statements and budget implementation reports of the Long-Term Employment Benefits Fund,

are expressed in the auditor’s report. The scope of the audit and the methods applied are described in more detail in Annexes 1-3 “Audit scope and methods” (pages 37-43).

Key audit results

The set of annual accounts of the State Social Insurance Fund

1. The Fund's sets of consolidated financial statements and budget implementation reports for 2023 contain material misstatements

The sets of consolidated financial statements and budget implementation 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 (PSAFRS) and other legal requirements. We identified material misstatements in the consolidated statements of financial position, statements of performance, statements of changes in net assets (items of current assets, current liabilities, net assets, operating income and costs, operating surplus or deficit, net surplus or deficit, operating receipts and benefits), in the budget income and expenditure and the data of cash inflows and outflows (items of income, expenditure and current year performance) and in the related data of the explanatory notes to the sets, which resulted from:

- ✓ Systematic deficiencies in the keeping of accounts, for the rectification of which measures have been taken:
  - Economic transactions related to the granting of periodic and lump sums (where for various reasons these benefits did not reach the beneficiaries) were not recorded in the accounts (errors identified in the previous audit were not corrected). The Board of the State Social Insurance Fund (SSIF) recorded part of the lump sums allocated from 2021 to 2023, while it was not able to assess and record the extent of the periodic benefits and part of the lump sums due to high administrative costs. As a result of these circumstances, we are unable to confirm the decrease amount of the accrued receivables from the public budget, the Fund's current liabilities, the financing income from the public budget, the cost (expenses) for social benefits and the increase amount of the performance result and current year performance (surplus), net surplus, net assets and the items that make up the net assets (Sections 1.1.1. and 1.2., pages 13-15 and 28-30). The Board of the SSIF plans to correct the non-compliance and implement last year's recommendation by 31 December 2027 with the development of a new software module.
  - The calculation of unemployment social insurance benefits inaccurately takes into account the insurable income earned by individuals in foreign countries, or periods. As a result, we were unable to estimate the increase or decrease amount of the Fund: receivables from foreign social security agencies and overpayments of these benefits, the Fund's liabilities, the cost of unemployment social insurance benefits, the performance result and current year performance (surplus), the net surplus, the net assets and the items that make up the net assets. We recommended that the Board of the SSIF should establish additional internal controls and operating procedures to ensure that the data on an individual's foreign insurable earnings and periods are correctly assessed for the purpose of calculating unemployment benefits. The Board plans to implement the recommendation by the end of 2024 (Sections 1.1.2 and 1.2, pages 16-18 and 28-30).
  - The depreciation of social benefit overpayments is calculated earlier than the time frame set out in the accounting policy; therefore, we were unable to confirm the

extent of the decrease amount of the balance for these receivable overpayments (EUR 2.3 million), the increase in depreciation expense and the decrease in the performance result and current year performance (surplus), the net surplus, the net assets and the items that make up the net assets. The Board of the SSIF plans to revise the provisions relating to the depreciation of overpayments of benefits in 2024 as part of the development of a new accounting policy (Sections 1.1.3 and 1.2, pages 21-23 and 28-30).

- ✓ Cash flows are incorrectly disclosed (overlapped) in the cash flow statement: the cash flow of social security reimbursements, payments from the public budget and erroneous transfers (EUR 13.2 million) is not classified as cash inflow from operating activities, but is used to reduce the cash flow of benefits (Section 1.1.5, page 25);
- ✓ Changes in the registers that are not automatically identifiable could result in random errors of up to EUR 6.9 million in the overall unemployment social security benefits (reduced receivables, increased expenses and decreased performance result and current year performance (surplus), net surplus, net assets). The Board of the SSIF plans to review and improve the settings of the information systems and to apply them from 1 January 2025 (Sections 1.1.2 and 1.2, pages 18-20 and 28-30).
- ✓ The statement of cash flows shows an increase of EUR 102.0 thousand in the realised exchange rate change related to pensions paid in foreign currency. This error was also present in the previous year (Section 1.1.5, pages 25-26).
- ✓ The difference between the current year performance (surplus) in the consolidated set of financial statements and the budget implementation reports, which is EUR 60.4 thousand higher than the amount reported in these reports (Sections 1.1.6 and 1.2, page 24 and pages 28-30), is not explained.

2. Reserve Fund increases

According to the consolidated set of accounts of the SSIF, at the end of the reporting period the State Social Insurance Reserve Fund amounted to EUR 2,713.7 million. Compared to 2022, it increased by EUR 751.5 million or 27.7%. This represented 43% of the Fund's 2023 expenses and 3.8% of GDP (EUR 72.1 billion). The Reserve Fund is expected to continue to increase: the Board of the SSIF forecasts that the growth of the Reserve Fund will reach EUR 4,214.0 million by the end of 2026 (5% of GDP or 51.6% of annual expenditure, page 30).

The set of annual accounts of the Guarantee Fund

3. The Fund's set of financial statements and budget implementation reports for 2023 are correct in all material respects (pages 31-32).

The set of annual accounts of the Long-Term Employment Benefits Fund

4. The Fund's set of financial statements for 2023 contains material misstatements due to incorrect opening balances, while the set of

budget implementation reports for 2023 is correct in all material respects

The set of financial statements of the Long-Term Employment Benefit Fund has not been prepared in all material respects in accordance with the PSAFRS. We identified material misstatements in the data (current liabilities, costs and surplus of social benefits) of the statements of financial position, performance and changes in net assets and in the related information in explanatory notes for the previous reporting period (31 December 2022). The misstatements were due to the recording of costs in the wrong reporting period as identified in the previous audit and the calculation of provisions without following the description of the procedure for their calculation (page 33). The set of budget implementation reports is correct in all material respects (page 34).

General information

5. A new standard for state social funds is being developed

The 2024 budgets of the state social funds are on the accrual basis, but the SSIF Board will still submit two sets of the same accrual-based accounts of the state social funds (financial statements and budget implementation reports) because the Ministry of Finance has not yet prepared (it planned to do so by the end of 2023) the amendments to the PSAFRS governing the disclosure of the budget execution data in the annual set of financial statements. The Ministry of Finance informed that a draft of the 32nd PSAFRS "Sets of Accounts of State Social Funds" has been prepared and is scheduled to be discussed at the PSAFRS Committee meeting in May of the current year (Chapter 4). The new set of accounts of state social funds is expected for the reporting for 2026 (page 34).

6. Preparatory work for optimising the operations of the SSIF is underway

During the 2017 public audit, we recommended that the Ministry of Social Security and Labour merge the 13 administrative bodies of the Fund into a single legal entity in order to optimise the Fund's operations and simplify its management structure. As part of the implementation of this recommendation, the number of legal entities of the SSIF has been reduced from 13 to 5 as of 2018, some functions have been centralised, and the function of payment of benefits is currently being centralised by creating a separate Payment Centre, which will become the centre for the payment of all SSIF benefits. As part of the progressive centralisation of functions, it is planned that the forthcoming SSIF Strategy 2025-2028 will include concrete measures, actions and deadlines for the implementation of the changes. The Board of the SSIF envisages that the conditions and the right environment will be in place for the SSIF to become a single legal entity in 2028 (pages 34-35).

7. It is suggested that the funds of the Guarantee Fund and the Long-Term Employment Benefit Fund should be used to finance active labour market policy measures

A draft amendment to the Law on Guarantees for Employees in the Event of Insolvency of their Employer and Long-Term Employment Benefits has been registered, which proposes to finance part of the active labour market policy measures (ALMMs) from the Guarantee Fund and the Long-Term Employment Benefits Fund, with up to EUR 10 million per year from each fund (pages 35-36).

Recommendations

In order to apply uniform principles in the calculation of unemployment social insurance benefits, our audit recommended that the SSIF Board should establish additional internal control and working procedures to ensure the correct assessment of the data on an individual's foreign insurable income and periods needed to calculate the unemployment benefit. The SSIF Board has put in place measures to implement the recommendation (Section 1.1.2, page 18).

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.