VALSTYBĖS KONTROLĖ
PUBLIC AUDIT

RESULTS OF THE FINANCIAL AUDIT OF THE 2023 NATIONAL SET OF ACCOUNTS

10 October 2024

No FAE-7

SUMMARY

Audit objective and scope

We carried out the audit of the 2023 national set of accounts in accordance with the Law on the National Audit Office and the Law on Public Sector Accountability.

The audit was carried out in accordance with International Standards of Supreme Audit Institutions, which cover 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 24). The report presents only the matters identified in the audit and the independent opinion on the annual accounts is expressed in the auditor's report.

Key audit results

1. The misstatements identified in the accounts of the lower consolidation level had a significant impact on the fair presentation of the national set of annual accounts

Since its compilation, the national set of annual accounts has been subject to pervasive material misstatements: it does not represent the fair value of state-owned assets, liabilities and revenues, and data for two entities are not recorded in the 2023 set (Chapter 1, page 10).

The fair presentation of the national set of annual accounts was significantly affected by the misstatements identified in the State's set of annual accounts (Chapter 1, page 12).

In 2023, the Municipal Control and Audit Services identified material misstatements by not confirming the correctness of EUR 1 394.54 million of the fixed assets and the amounts of financing related to these assets and net assets. Most of this amount is due to incorrect recording in the accounts of municipal roads and streets (Chapter 1, page 13).

Material misstatements were identified in the sets of accounts of the Compulsory Health Insurance Fund and State Social Insurance and Long-Term Employment Benefit Fund due to the incorrect recording of receivables and payables of the Funds (Chapter 1, page 13).

2. With the introduction of consolidated budget planning, accountability - not identified

As a result of the changes to the Law on Public Sector Accountability, from 2023, the national set of annual accounts will include not only data on the financial position, performance and cash flow of the state public sector entities, all municipal public sector entities, the state social funds, the Compulsory Health Insurance Fund and the Pension Annuity Fund consolidated into a single set of public sector entity accounts, but also data on the implementation of the budgets of municipalities.

Thus, different sets of accounts have been brought together in a single set of accounts: accrual-based (financial statements) for the public sector as a whole and cash-based (budget implementation data) for municipalities only.

The new version of the Law on Budgetary Structure, which entered into force on 1 March 2024, introduced the planning and approval of the medium-term consolidated budget. This budget will consist of the budgets of the state, municipalities, state social funds and the Compulsory Health Insurance Fund, merging their indicators and eliminating planned transfers between them. The consolidation of these budgets will allow for the preparation of a comprehensive financial plan reflecting the totality of the financial resources of the State, the Social Funds, the Compulsory Health Insurance Fund and the municipalities. The Law on Public Sector Accountability does not provide for reporting on the implementation of such a budget. As budget consolidation is planned, it is appropriate to supplement the national annual accounts with data on the implementation of the consolidated budget in order to maintain the accountability system at all levels (Chapter 2, page 14).

3. Data on public debt are correct in all material respects

General government debt stood at EUR 27 557.9 million at the end of 2023, rising by EUR 1 885.5 million or 7.3% over 2023. The debt data are correct in all material respects (Chapter 3, page 16).

In 2023, borrowing was planned at EUR 6 673.0 million, while actual borrowing was EUR 3 979.7 million. The government's borrowing in 2023 was in line with the borrowing limits (Chapter 3, page 17).

The requirements for municipal debt management (debt, borrowing, guarantee limits and debt coverage) were laid down each year in the Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for the respective year. Since the legislative amendments entered into force on 1 January 2023, the general principles and limits related to municipal debt management have been laid down in the Constitutional Law on the Implementation of the Fiscal Treaty and are assessed by the Budget Control Authority (according to the assessment, in 2023, all municipalities were complying with the applicable fiscal discipline rules). However, the debt management requirements for municipalities in 2023 were also laid down in the 2023 Law on Indicators. In 2023, eleven municipalities did not comply with the provision of the Law on Indicators that the municipality's existing indebtedness on 1 January 2024 (amounts payable, excluding amounts for the repayment of loans) must not exceed the amount of such indebtedness on 1 January 2023. The other requirements of the 2023 Law on Indicators have been complied with by the municipalities. The 2024 Law on Indicators does not impose any debt management requirements on municipalities (Chapter 3, page 17).

The amendments to the Stability and Growth Pact removed the requirement for Member States to prepare a Stability Programme, so Lithuania's Stability Programme for 2024, which also sets out medium-term guidelines for government borrowing and debt management, has not been prepared. Under the new regime, countries were required to prepare national medium-term fiscal plans by 20 September 2024, setting out fiscal, structural and investment policies for the next 4-7 years. For Lithuania, the deadline has been postponed until spring 2025.

The government planned to develop a strategy for managing government debt in 2021. This plan was postponed until Q2 2023 and then modified to replacing the strategy with a tool for modelling debt scenarios and assessing the sustainability of government finances. This is an important step in fiscal policy, but it does not substitute a strategy for public debt management, i.e. a definition of the objectives to be pursued (Chapter 3, p. 19).

4. Reserves replenished by EUR 799.7 million in 2023, the amount of reserves Lithuania must accumulate is not identified

State reserves (Reserve (Stabilisation) Fund, State Social Insurance Fund and Compulsory Health Insurance Fund) increased by 27.8% in 2023, accumulating at the end of the year to EUR 3 675.2 million (Chapter 4, page 20).

In previous audits, the National Audit Office has pointed out the need to review the issues of public reserves - target size, sources of financing, etc. - in a comprehensive manner, together with the strategy for public debt management. In an uncertain geopolitical and economic situation, the identification and management of the required public reserves is an important element for a country to maintain economic stability, ensure security and effectively manage unforeseen challenges. In the absence of a Public Sector Debt Management Strategy, the issues of reserve accumulation and management also remain unresolved (Chapter 4, p. 21).

Recommendations

For the Ministry of Finance

1. To ensure accountability at all levels of the public sector, we recommend that the national set of annual accounts be complemented by consolidated budget implementation data (Key Audit Result 2) (pp. 14-15).

Measures and deadlines for the implementation of the recommendations are set out in the section of the report entitled "Plan for the implementation of the recommendations" (p. 22).

As a result of the recommendations made by the National Audit Office, the sets of annual accounts and audit reports of the State, the State Social Funds, the Compulsory Health Insurance Fund and the Pension Annuity Fund for the year 2023 have been submitted to the Seimas on 15 May at the spring session instead of the usual autumn session. This is an important step in the formulation of the next year's state budgets, which will allow to link performance to financial data. The 2025 National Accounts will also be submitted to Parliament in the spring session, by 5 June. The 2026 reporting sets will include the accounts of profit-making entities controlled by the State and municipalities, i.e. the coverage of consolidated entities is extended to the general government.

Up-to-date information on the status of implementation of the public audit recommendations of the high and medium importance as of 1 September 2024 is provided in the Report on the implementation of the recommendations of 3 September 2024 and published in open data on the National Audit Office website at https://www.valstybeskontrole.lt/LT/AtviriDuomenys.