PUBLIC AUDIT REPORT

RESULTS OF THE FINANCIAL AUDIT OF THE SET OF ACCOUNTS OF THE NATIONAL DEFENCE FUND

15 May 2025

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The National Audit Office - the supreme audit institution - supervises 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- and public needs-oriented public governance. For more information on the activities of the National Audit Office and the results of the public audit, please visit the website of the National Audit Office at: 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 National Defence of the Republic of Lithuania.

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INTRODUCTION

Audit Objective and Scope

We have audited the set of annual accounts of the National Defence Fund for the year 2024 in accordance with the Law on the National Audit Office, the Law on Public Sector Accountability, and the National Audit Office Annual Activity Plan for 2025.

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 the independent audit opinion on the annual financial statements and the budget implementation reports of the Fund is given in the Auditor‘s report.

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

Purpose of the National Defence Fund

The National Defence Fund is[1] a monetary fund of the State to accumulate the State's monetary resources to meet the most urgent needs for the development of priority national defence capabilities and civil protection.

The National Defence Fund is a public sector entity of the State[2] - a resource fund[3] managed by the Ministry of National Defence[4]. The accounting of the Fund is kept by the Ministry separately from its own accounting as the manager of appropriations. The financial statements of the Fund are drawn up in accordance with the Law on Public Sector Accounting[5], the Public Sector Accounting and Financial Reporting Standards[6] and the report on the implementation of the Fund's estimates is drawn up in accordance with the Rules on the preparation of the set of budget implementation reports for Resource Funds[7].

Sources for establishing the Fund[8]:

- ✓ State budget revenue from the temporary solidarity contribution for the 2025 temporary solidarity contribution payment period;

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[1] Law on the National Defence Fund, Art. 3(1).

[2] Order of the Minister of Finance No 1K-414 of 31 December 2024 "On the Implementation of the Law on Public Sector Accountability of the Republic of Lithuania in the Preparation of the set of accounts of the State for 2024 and the national set of accounts for 2024".

[3] Law on Public Sector Accountability, Article 2(6) (version in force until 1 January 2025).

[4] Law on the National Defence Fund, Art. 3(2)

[5] Law on Public Sector Accountability, Art. 12 (version in force until 1 January 2025).

[6] Law on Financial Accounting, Art. 11(1)(4)

[7] Law on Public Sector Accountability, Article 2(18) (version in force until 1 January 2025), Order of the Minister of Finance No 1K-461 of 16 December 2014 "On the Approval of the Rules for the Compilation of the set of budget implementation reports of the resource funds".

[8] Law on the National Defence Fund (version in force until 10 April 2025), Art. 4.

- ✓ voluntary contributions from natural and legal persons, other organisations and their units;
- ✓ 1.9 per cent of state budget revenue from corporate income tax collection in 2025, 6 per cent in 2026 and beyond;
- ✓ 4.1 per cent of state budget revenues from excise duties in 2025, 7.1 per cent in 2026, 7.4 per cent in 2027 and beyond;
- ✓ revenue and other lawful gains as defined in Article 4(7);
- ✓ EUR 25 million from the state budget's revenue from personal income tax, with the same amount of reduction in the fixed share of the personal income tax (in percentage terms) for municipal budgets, in accordance with the provisions of the Law on the Methodology for Determination of the Revenue of Municipal Budgets. The reduction of this share is calculated during the preparation of the Draft Law of the Republic of Lithuania on Budget Approval for the years 2025-2027 and is recalculated each subsequent year during the preparation of the Draft Law of the Republic of Lithuania on Budget Approval for the respective year

The Fund's expenditure is intended to finance measures to meet the most urgent priority needs of the State in terms of defence capability and civil protection, to achieve the following objectives[9]:

- ✓ acquisition of weapons, equipment and ammunition necessary for the development of a division-level military unit capacity, to develop the military infrastructure required for this military unit;
- ✓ establishing and developing the civil and military infrastructure required for the German-led North Atlantic Treaty Organisation (NATO) Brigade;
- ✓ designing and developing counter-mobility measures aimed at forming obstacles and barriers against enemy forces;
- ✓ financing projects for military mobility and double purpose (civil and military needs) transport infrastructure, as well as for the adaptation and/or establishment of military infrastructure needed to ensure host country support;
- ✓ implementing the programme on the strenghtening and development of the civil protection foreseen in the Law on Crisis Management and Civil Protection.

[9] Ibid, Art. 5.

AUDIT RESULTS

1. THE SET OF ANNUAL ACCOUNTS IS FAIR IN ALL MATERIAL RESPECTS

We did not identify any significant errors and, accordingly, we express an unqualified opinion on the National Defence Fund's 2024 set of financial statements and the set of budget implementation reports - in all material respects the set of financial statements presents a true and fair view and the set of budget implementation reports is prepared in accordance with the applicable requirements. The Fund started its activities on 1 October 2024 and during the audited period it received only voluntary contributions from natural and legal persons, other organisations and their departments as defined

2. NATIONAL DEFENCE FUND - A SEPARATE RESOURCE FUND?

1. The Ministry of National Defence is the manager of appropriations[10], with its own duties and responsibilities[11], and is subject to the annual approval of the State budget appropriations[12], which means the amount of planned expenditure approved in the State budget which the manager of appropriations is entitled to receive in the budget year from the appropriations provided for in the State budget, after submitting an request to the Ministry of Finance, which is the manager of the State Treasury, to be used to finance the programmes.
2. The Republic of Lithuania Law on Budget Approval[13] for the period 2025-2027 approved appropriations of EUR 2 508.32-2 705.35 million for the Ministry of National Defence in the medium term, of which between 9.6 per cent and 13.3 percent is allocated to the National Defence Fund. Consequently, the Ministry of National Defence, in the capacity of the Fund's administrator[14], will transfer to itself, to the account of the State Defence Fund, from EUR 240,16 million in 2025 to EUR 358,88 million in 2027 of the State budget appropriations.

[10] Law on the Budget Structure, Art.3.

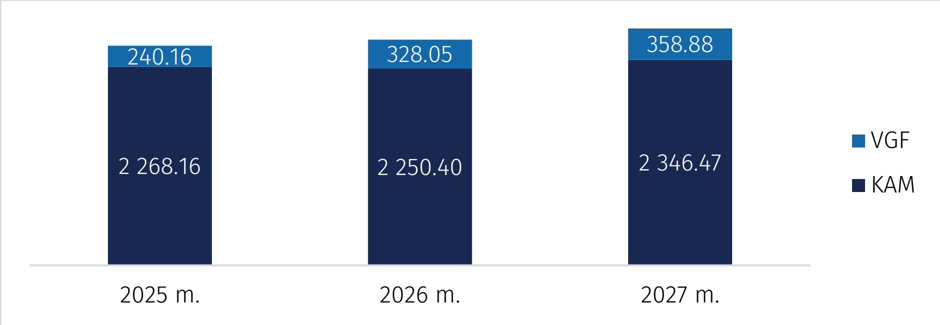
[11] Ibid, Art.4.

[12] Ibid, Art. 2(2)

[13] Law on the Approval of the Budget of the Republic of Lithuania for 2025-2027, Annex 3.

[14] Law on the National Defence Fund, Article 3(2).

Fig. 1. Planned State Budget (SB) appropriations for the Ministry of National Defence (KAM) for the period 2025-2027, of which for the State Defence Fund (VGF), EUR million



Source - National Audit Office in accordance with the Law on Budget Approval of the Republic of Lithuania for 2025-2027

3. This Defence Fund money is essentially used for the same purposes for which the Ministry of National Defence receives state budget appropriations. Thus, a situation arises where the money transferred by the Ministry of National Defence to the National Defence Fund has to be returned to the Ministry for the exercise of its functions, i.e. for the implementation of national defence measures.

4. The aim of establishing the National Defence Fund is positive, but the Fund, as a separate public sector entity, imposes an additional administrative burden on the Ministry of National Defence: the same appropriations (10-13 per cent for the Ministry) have to be reported in the annual accounts of both the Ministry of National Defence and the National Defence Fund. In this context, we suggest reconsidering the appropriateness of the National Defence Fund as a separate public sector entity for which a separate set of annual accounts must be prepared

Auditor General Irena Segalovičienė

Annex to the Public Audit Report "Results of the financial audit of the set of annual accounts of the National Defence Fund for 2024"

Audit Scope and Methods

Audited set of financial statements for 2024:

- ✓ statement of financial position, statement of performance, statement of cash flows, statement of changes in net assets and note to the financial statements prepared on the basis of data as at 31 December 2024.

Audited set of budget implementation reports for 2024:

- ✓ report on the implementation of the estimates of the budget as at 31 December 2023 and explanatory note thereto.

Subsidiary, controlled and/or consolidated bodies:

- ✓ The Fund has no subsidiaries, controlled or consolidated bodies.

Materiality applied to the audit:

- ✓ quantitative materiality in the set of financial statements EUR 750, in the set of budget implementation reports - EUR 740.

A material matter is defined as a misstatement or a combination of misstatements in excess of 1 per cent of assets in the Fund's set of financial statements (this amounted to EUR 750) and in excess of 1 percent of revenue in the set of budget implementation reports (this amounted to EUR 740). Smaller misstatements that are important to the user of the information because of their nature, the circumstances or the context in which they occurred are also considered to be qualitatively material. The absence of, or failure to comply with, key internal control measures is also considered to be a qualitatively material matter.

Limitations on the scope of the audit:

- ✓ no limitations

Audit has been conducted:

- ✓ in accordance with the international standards of supreme audit institutions , which include International Standards on Auditing (ISAs)[15];
- ✓ to obtain reasonable assurance that the financial statements and the budget implementation reports are free from material misstatement. Full assurance is not possible due to inherent limitations of audit and internal control.

[15] International Standards on Auditing issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants (translated into Lithuanian language by the Lithuanian Chamber of Auditors (until 28 February 2017) and the Audit, Accounting, Assets Valuation and Insolvency Management Office of the Ministry of Finance of the Republic of Lithuania (since 1 March 2017), Internet accessed at: https://avnt.lrv.lt/lt/teisine-informacija/teises-aktai/auditas (accessed on 24-04-2025).

Audit Scope and Methods
2024 opening and closing balances of assets and, respectively, financing amounts, liabilities and net assets:
On 1 October 2024, the Fund started operations and at the end of 2024, the total balance of assets and, accordingly, the balance of financing amounts, liabilities and net assets amounted to EUR 74 975.47
Income generated and costs incurred in 2024:
no income was generated, and no costs were incurred.
Revenue received and expenditure incurred in 2024:
revenue of EUR 73 975,47 (voluntary contributions from natural and legal persons, other organisations and their units), no expenditure incurred.
Areas assessed and procedures performed on data from the 2024 sets of accounts
Examination of the audited entity's operational, accounting and internal control systems has identified areas where the risk of material misstatement exists:
– A decision was made to assess all economic transactions: whether they were recorded on time, at the correct values, with the correct supporting documents, with the correct account correspondences, and whether they were correctly disclosed in the financial and other accounts.
Areas where the efficiency of internal control procedures has been assessed (testing of controls):
– internal control was not tested.
Areas where substantive audit procedures (tests of details and/or analytical procedures) have been performed):
– tests of details were performed on 100% (due to the small number of transactions) of the scope in order to obtain completeness, occurrence, existence, valuation, disclosure assertions – Compilation of annual accounts - 100% valuation to obtain disclosure assertion.
Overall valuation of the set of accounts
To valuate: – the appropriateness of the accounting policies used, the justification of accounting estimates and related management disclosures; – the overall presentation, structure and content of the financial statements, including disclosures, and whether the underlying transactions and events are presented in a manner consistent with the requirements of Public Sector Accounting and Financial Reporting Standards; – the overall presentation, structure and content of the budget implementation reports, and whether the underlying transactions and events are presented in a manner consistent with the requirements for the presentation of a set of budget implementation reports.