RESULTS OF THE FINANCIAL AUDIT OF THE SET OF ACCOUNTS OF THE STATE SOCIAL FUNDS FOR 2024

15 May 2025

No FAE-6

SUMMARY

Audit Objective and Scope

We have carried out the financial audit of the set of accounts of the State social funds for the year 2024 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 the independent audit opinions on the set of annual accounts of the State social funds comprising:

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

are given in the Auditor‘s report. The scope of the audit and the methods applied are described in more detail in Annexes 1-3 to the Audit report “Audit scope and methods” (pp. 30-37).

Key audit Results

Set of annual accounts of the State Social Insurance Fund

1. The sets of consolidated financial statements and budget implementation reports of the Fund for 2024 contain material misstatements

The sets of consolidated financial statements and budget implementation reports of the State Social Insurance Fund (SSIF) have not been prepared, in all material respects, in accordance with the requirements of the Public Sector Accounting and Financial Reporting Standards (PSAFRS) and other legal acts. We identified material misstatements in the consolidated statements of financial position, performance, changes in net assets (current assets, current liabilities, net assets, operating income and expenses, surplus or deficit on main operating activities, net surplus or deficit), and in the statements of budgetary income and expenditure (revenue, expense and current year result items) and in the corresponding notes to the financial statements, which resulted from:

- ✓ Systematic deficiencies in accounting treatment for which corrective action has been taken:

  - The economic transactions related to the granting of periodic and lump sums (where these payments did not reach the beneficiaries for various reasons) were not recorded in the accounts (uncorrected errors identified in the 2022 audit). The State Social Insurance Fund Board recorded part of the lump sums granted in the period 2021-2024, while the extent of the periodic payments and part of the lump sums was not assessed and recorded due to the high administrative costs. As a result, we are unable to confirm the amount by which the accumulated receivables from the State budget, the Fund's current liabilities, the proceeds of financing from the State budget, the cost/expenditure on social benefits have been reduced, and the amount by which the operating result and the current year's result (surplus), net surplus, net assets and the items that make up the surplus have been increased (Sub-sub-section 1.1.1 and Sub-section 1.2, pp. 13 to 16 and pp. 24 to 25). The SSIF Board plans to correct the non-compliance and implement the recommendation made in the 2022 audit by 31 December 2027 through the development of a new software module.

  - The calculation of unemployment insurance benefits does not accurately estimate the insurable income and periods of time earned by persons in foreign countries (deficiencies identified in the 2023 audit have not been corrected). As a result, we were unable to estimate the amount by which the Fund should be increased or decreased: receivables from foreign social security agencies and overpayments of these benefits, the Fund's liabilities, the cost of unemployment benefits, the result (surplus) from operating activities and the result (surplus) of the current year, the net surplus, the net assets and the items that make up the net assets. In order to implement the recommendation made in the 2023 audit, the Ministry of Social Security and Labour is developing a procedure for the assessment of insurable income and periods of unemployment insurance received by persons in foreign countries (Sub-sub-section 1.1.2 and Sub-section 1.2, pp. 16-18 and pp. 24-25).

- ✓ Additional internal controls are required to collect and measure all information on events that may give rise to contingent assets and contingent liabilities of the Fund, and to communicate information to other administered funds on their share. Therefore, we are unable to confirm the accuracy of the information provided in the notes on contingent assets and contingent liabilities recorded in off-balance sheet accounts. The SSIF Board has planned to implement the recommendation made to it concerning the establishment of additional controls by 31 March 2026 (Sub-sub-section 1.1.3, pp. 18-20).

2. The Fund's Board takes measures to address deficiencies identified in the operational processes of the Fund's administering bodies

In response to the auditors' observations, the Fund's Board approved in 2025 a new description of the procedure for planning, organising and conducting public procurement of goods, services and works, covering all stages of the procurement process and complying with the requirements of the procurement legislation; by Q3 2025, plans to set up a system of incentives for staff in the Fund's administering bodies, setting out the additional remuneration to be paid to staff, the incentives to be granted for the results achieved and the objectives pursued, the basis and conditions for their application, etc..; by Q3 2025, plans to assess and take steps to improve the regulation and existing controls on the use of public transport tickets in the Fund's administering bodies; and by strengthening internal control procedures in the area of mission travel; by 01.07.2025, it foresees to supplement the internal rules with an obligation for employees to assess the need for a change of workplace in their contracts of employment in the event of a change of residence and, if necessary, to submit a request to the employer (Sub-sub-section 1.1.4, pp. 20-24).

Set of annual accounts of the Guarantee Fund

3. The sets of financial statements and budget implementation reports of the Fund for 2024 are correct in all material respects (pp. 26-27).

Set of annual accounts of the Long-Term Employment Benefits Fund

4. The sets of financial statements and budget implementation reports of the Fund for 2024 are correct in all material respects (pp. 27-28).

General information

5. Significant circumstances that may affect the future activities of the SSIF

6. The Seimas has started considering the draft Law on Pension Accumulation (together with the draft Law on State Social Insurance, draft Law on Social Insurance Pensions and other legislation). These draft laws propose: a shift to a voluntary accumulation model; the possibility of withdrawing from pension accumulation during a transitional period; more flexible options to make additional contributions, to stop paying contributions and to withdraw 25% of the money saved. Around EUR 1.1 billion would be transferred to the budget of the SSIF during the transitional period for those returning from pension saving. This amount would be credited to the revenues of the SSIF budget in the year of transfer and transferred to the Social Insurance Reserve Fund as a surplus at the end of the year. The Reserve Fund

continues to accumulate and amounted to EUR 3 618.1 million at the end of the reporting period (Sub-section 1.3, pp. 25-26).

7. A new accounting and reporting standard for the State social funds is being finalised

The 2024 budgets of the State social funds are drawn up on an accrual basis, but for the purpose of reporting on them, the SSIF Board submits two sets of accounts for the State social funds (the financial statements and the budget implementation reports) on the same accrual basis. The Ministry of Finance has drafted (originally planned by the end of 2023) and agreed with the authorities concerned draft PSARS governing the new composition of the accounts of the State social funds and the requirements for the information to be provided therein. The Ministry of Finance plans to approve the amendments in June/July 2025. The provisions of the standards would be applicable for the 2026 accounts, as the adaptation of the VSAKIS information system for the consolidation of these sets into the National set of accounts is still to be done (p. 28).

8. The Guarantee Fund and the Long-Term Employment Benefit Fund are to be used to finance active labour market policy measures

In 2024, legislative amendments were adopted to provide for the possibility and procedures for financing active labour market policy (ALMP) measures through the Guarantee and Long-Term Employment Benefit Funds (pp. 28-29).

Recommendations

1.1. The implementation of the recommendations made in previous audits remains relevant to ensure the correctness of the annual accounts: in 2022, on the recording of the liabilities related to the benefits allocated and not yet reaching the beneficiaries (deadline 31 December 2027); in 2023, on the calculation of the unemployment social security benefits for persons who have worked abroad (deadline 31 December 2024).

In our 2024 audit, we made two recommendations to the State Social Insurance Fund Board:

- ✓ In order to keep all contingent assets and contingent liabilities in off-balance sheet accounts, additional internal controls should be put in place to ensure that all information on events that may give rise to contingent assets or contingent liabilities is accumulated, assessed in detail and communicated to those responsible for the accounting of the Fund, and that the information necessary for the preparation of the accounts is made available to the resource funds administered (deadline: 31 March 2026) (Sub-sub-section 1.1.3, p.19).

To ensure that the assets used by the bodies administering the State Social Insurance Fund are protected against fraud, embezzlement, misappropriation, illegal management, use and disposal or other illegal acts and that the Fund's annual accounts contain reliable and correct information, improve the bodies' processes for asset management and inventory by further regulating the procedures for managing assets and taking inventories (deadline: 31 December 2026) (Sub-sub-section 1.1.4, p. 22).

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