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PUBLIC AUDIT REPORT

RESULTS OF THE FINANCIAL AUDIT OF THE SET OF ACCOUNTS OF THE NATIONAL DEFENCE FUND FOR THE YEAR 2025

13 May 2026

No FAE-1

The National Audit Office is the supreme state audit institution which supervises the lawfulness 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 result-oriented and public needs-oriented public governance. For more information on the activities of the National Audit Office and the results of the national audit, please visit the website www.valstybeskontrole.lt.

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The Public Audit Report has been submitted to: the Audit Committee of the Seimas of the Republic of Lithuania, the Government of the Republic of Lithuania, the Ministry of National Defence, the Ministry of Finance, the Ministry of the Interior and the Ministry of Transport and Communications of the Republic of Lithuania, the Centralised Finance and Property Service under the Ministry of National Defence, the Defence Resources Agency under the Ministry of National Defence, the Lithuanian Armed Forces, and the Infrastructure Management Agency under the Ministry of National Defence.

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INTRODUCTION

Purpose and scope of the audit

In accordance with the Law on the National Audit Office, the Law on Public Sector Accountability and the Work Plan of the National Audit Office for 2026, we have audited the annual accounts of the National Defence Fund for the year 2025.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions, which incorporate International Standards on Auditing. The audit report presents only the findings identified during the audit, whilst an independent opinion on the Fund's financial and budget implementation reports is expressed in the audit opinion.

The scope of the audit and the methods applied are described in the appendix "Scope and Methods of the Audit" to the report (pages 16–17).

Purpose of the National Defence Fund

The National Defence Fund is a national cash fund intended to accumulate state financial resources to ensure the urgent needs for strengthening priority state defence capabilities and civil protection[1] .

The National Defence Fund is a public sector entity[2] – a resource fund[3] – managed by the Ministry of National Defence[4]. The Ministry maintains the Fund's accounts separately from its own accounts as the administrator of appropriations. The Fund's financial statements are prepared in accordance with the Law on Public Sector Accounting[5] and Public Sector Accounting and Financial Reporting Standards[6], whilst the report on the implementation of the budget of the Fund is prepared in accordance with the Rules for the Preparation of the Set of Budget Implementation Reports of the Resource Funds[7].

The Fund's resources for 2025 consist of[8]:

- ✓ the State budget revenue received from the temporary solidarity contribution for the 2025 payment period of the temporary solidarity contribution – EUR 85.28 million;
- ✓ voluntary contributions from natural and legal persons, other organisations and their branches – EUR 0.13 million;

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

[2] Law on Public Sector Accountability, Article 2(20)

[3] Law on Public Sector Accountability, Article 2(6)

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

[5] Law on Public Sector Accounting, Article 12

[6] Financial Accounting Act, Article 11(1)(4)

[7] Order No 1K-461 of the Minister of Finance of 16 December 2014 "On the Approval of the Rules for the Preparation 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), Article 4(1).

- ✓ 1.9% of state budget revenue received from income tax collected in 2025 – EUR 27.17 million;
- ✓ 4.1% of state budget revenue from excise duties in 2025 – EUR 79.81 million;
- ✓ the portion of the State budget revenue from the profit contribution of the Bank of Lithuania exceeding EUR 14 million – EUR 116.04 million;
- ✓ EUR 25 million from the State budget revenue derived from personal income tax, with the fixed share of personal income tax allocated to municipal budgets (as a percentage) reduced by the same amount in accordance with the provisions of the Law on the Methodology for Determining Municipal Budget Revenue of the Republic of Lithuania. This reduction shall be calculated when drafting the Bill on the Approval of the Budget of the Republic of Lithuania for 2025–2027 and recalculated in each subsequent year when drafting the Law on the Approval of the Budget of the Republic of Lithuania for the relevant year;

Fund expenditure – measures financed to ensure the most urgent priority needs for strengthening the state's defence capabilities and civil protection, aimed at achieving the specified objectives[9] – EUR 297.47 million:

- ✓ to procure the armaments, equipment and ammunition necessary to develop the capabilities of a division-level military unit, and to establish the military infrastructure required for this unit – EUR 166.74 million;
- ✓ to establish and develop the civilian and military infrastructure required for the operations of the German-led North Atlantic Treaty Organisation (NATO) brigade – EUR 13.66 million;
- ✓ to develop and enhance counter-mobility measures for the deployment of obstacles and barriers against enemy forces – EUR 33.32 million;
- ✓ to fund projects for the adaptation and/or development of military mobility and dual-use (civilian and military) transport infrastructure, as well as military infrastructure necessary to ensure host nation support – EUR 81.26 million;
- ✓ to implement the programme specified in the Law on Crisis Management and Civil Protection, aimed at strengthening and developing civil protection – EUR 2.48 million.

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

AUDIT FINDINGS

1. WE ISSUE QUALIFIED OPINIONS ON THE SETS OF FINANCIAL STATEMENTS AND BUDGET IMPLEMENTATION REPORTS OF THE NATIONAL DEFENCE FUND FOR THE YEAR 2025

Cash flows are misstated and receivables have not been recorded

1. Significant discrepancies were identified between actual cash flows and their presentation in the cash flow statement: although the Fund did not engage in any financial activities, the cash flow statement under item C.III. “Other cash flows from financial activities” indicated (EUR –296,466.72 thousand); in 2025, the Fund transferred the amount of EUR 316,068.12 thousand to public sector entities, but in item A.II.5 “Funds transferred to public sector entities” indicated EUR 4,200 thousand; the amount of EUR 18,598.32 thousand was returned to the Fund, but the Fund indicated only EUR 3,196.91 thousand in item A.I.6 “Other receipts” of the report.

2. The Law on the National Defence Fund stipulates that a defined portion of certain taxes is allocated to the Fund annually[10]. The specific amount to be transferred to the Fund each month is calculated the following month, once the actual tax revenue for the relevant month has been determined. In January 2026, the Ministry of Finance informed the Fund’s administrator, the Ministry of National Defence, in writing that in December 2025, revenue of EUR 16,692.40 thousand was received into the State budget, which, in accordance with legislation, must be transferred to the Fund[11]. Although the afore-mentioned funds will actually be transferred to the Fund in 2026, they are attributable to the 2025 reporting period. In accordance with the accrual principle[12], the Fund should have recognised these amounts as receivables, but they were not recorded in the Fund’s accounts. Consequently, the amounts in items C.III “Receivables due within one year” and D.I “Funding from the state budget” of the statement of financial position of the Fund should be reduced by EUR 16,692.4 thousand.

It is not possible to objectively assess the cost of achieving some of the objectives

3. The sets of budget implementation reports states that for the objective “To create and develop the civil and military infrastructure necessary for the operations of the German-led North Atlantic Treaty Organisation (NATO) brigade”, the amount of EUR 13,660.21 thousand was spent in 2025, whilst for the objective “To finance projects for the adaptation and/or creation of military mobility and dual-use (civilian and military)

[10] Law on the National Defence Fund, Article 4(1).

[11] Letter No 6K-26/222 of the Ministry of Finance dated 15 January 2026.

[12] 1st Public Sector Accounting and Financial Reporting Standard, paragraphs 14 and 21.

transport infrastructure, as well as military infrastructure necessary to ensure host nation support", i.e. EUR 81,264.62 thousand. During the audit, no sufficient and appropriate evidence was obtained to confirm that the entire amount was correctly allocated to the first objective and that part of the funds for the second objective (EUR 13,437.11 thousand out of EUR 81,264.62 thousand) has been correctly allocated to the implementation of the afore-mentioned objective.

4. Funding for these purposes was received under two contracts by the Infrastructure Management Agency under the Ministry of National Defence (a total of EUR 27,097.32 thousand). Although the contracts with the agency specify different objectives as defined in the Law on the National Defence Fund[13], the activities undertaken to achieve the afore-mentioned objectives overlap[14]. Consequently, it is not possible to objectively distinguish which part of the expenditure relates to each objective.

5. The Ministry of National Defence acknowledges that the afore-mentioned objectives overlap to some extent. Given that, under the legal framework of the Fund, accounts must be rendered for the funds used for each objective[15], it is necessary to establish clear criteria for distinguishing between activities, which would allow for an objective assessment of the cost of implementing these objectives. Where activities are not clearly linked to specific objectives, this creates the conditions for a subjective allocation of funds between the objectives and an insufficiently substantiated assessment of the results of their implementation.

Other inaccuracies in the presentation of data in the set of financial statements and the set of budget implementation reports

6. The Ministry of National Defence, as the manager of the Fund[16], manages two accounts in which only the Fund's funds are held: a commercial bank account into which voluntary contributions from natural and legal persons are transferred, and a State Treasury account in which all remaining Fund resources are accumulated, including voluntary contributions periodically transferred from the commercial bank account. Funds held in the State Treasury account are shown as cash in the set of financial statements and the set of budget implementation reports of the Fund, but voluntary contributions held in the commercial bank account are shown as cash in the set of financial statements of the Ministry of National Defence until they are transferred to the State Treasury account. In accordance with the Law on Public Sector Accounting[17], the financial statements of a public sector entity must include only state assets owned by that entity or held in trust,

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[13] The subject of Agreement No 6SU-25 of 7 April 2025 between the Fund and the Infrastructure Management Agency is the allocation of funds for the purpose "To create and develop the civil and military infrastructure necessary for the operations of the German-led North Atlantic Treaty Organisation (NATO) brigade" and the subject of Agreement No 6SU-26 of 15 April 2025 between the Ministry of National Defence and the Infrastructure Management Agency is the allocation of funds for the implementation of the objective "To finance projects for the adaptation and/or creation of military infrastructure necessary to ensure host nation support".

[14] Both agreements provide for the allocation of funds for the activity "Phase I of NATO Brigade Infrastructure at Rūdninkai Training Area"; Agreement No 6SU-25 "Shooting ranges and other training infrastructure at Rūdninkai Training Area"; No 6SU-26 "Design and construction of firing ranges and other training infrastructure at Rūdninkai military training area", Agreement No 6SU-25 "Administrative, technical, supply and road infrastructure at Rūdninkai training area", No 6SU-26 "Design and construction of the internal road network at Rūdninkai military training area".

[15] Rules for the Preparation of the Set of Reports on the Implementation of the Budget of the Resource Funds", approved by Order No 1K-461 of the Minister of Finance of 16 December 2014, sub-paragraph 11.3.

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

[17] Law on Public Sector Accountability, Article 4(2).

used and disposed of by it; therefore, in accordance with the Law on the National Defence Fund[18], these funds should be recorded as the Fund's cash from the moment of receipt. The balance of voluntary contributions from natural and legal persons in the commercial bank account as at 31 December 2025 (EUR 1.36 thousand) The set of financial statements of the Fund should be shown not in item C.III "Amounts receivable within one year" of the statement of financial position, but in item C.V "Cash and cash equivalents" of the statement of financial position.

7. The explanatory note to the set of budget implementation reports of the Fund states that the Fund's expenditure estimate has been revised to EUR 356,193 thousand. The above information is incorrect, as only the Seimas may revise the Fund's expenditure estimate, and it did not revise the Fund's estimate for 2025. The Ministry of National Defence revised the estimate for the programme it manages, which includes planned appropriations for the Fund. The programme's estimate was increased by EUR 116,036.07 thousand, incorporating additional revenue – the portion of the Bank of Lithuania's profit contribution to the Reserve Fund exceeding EUR 14 million, which was not provided for in the initial budget. The data in the column "Budget for the Fund's resources for the reporting period" of the Fund's budget implementation report corresponds to the budget approved by the Seimas.

Voluntary contributions – not always support

8. In accordance with the Law on Charity and Sponsorship[19], sponsorship is defined as the voluntary and gratuitous provision of monetary funds, other assets or services by providers to the beneficiaries specified in the afore-mentioned law. One of such beneficiaries is a budgetary institution[20]. The Ministry of National Defence, as a budgetary institution, receives support and information about it in accordance with the established requirements[21], discloses this in the explanatory note to the set of financial statements, and providers are subject to the tax and customs reliefs provided for by law. However, voluntary contributions made by natural and legal persons to the Fund managed by the Ministry are not considered aid, even though they are also monetary funds transferred voluntarily and without consideration; the reliefs provided for by law do not apply to the contributors of these payments. There are no clear criteria in legislation to justify why these funds are not classified as aid.

[18] Law on the National Defence Fund, Article 4(1)(2).

[19] Law on Charity and Sponsorship, Article 2(2).

[20] Law on Charity and Sponsorship , Article 7(1)(2).

[21] 6th Public Sector Accounting and Financial Reporting Standard, paragraph, 25(1).

2. THE OPERATING MODEL OF THE NATIONAL DEFENCE FUND DOES NOT CONTRIBUTE TO THE OPTIMAL MANAGEMENT OF FINANCIAL RESOURCES OF THE STATE

There is no information on the results of the use of resources of the National Defence Fund

9. In 2025, the amount of EUR 297,469.81 thousand of the Fund's resources were used; however, neither the set of financial statements nor the set of budget management reports disclose what specific results were achieved with the afore-mentioned funds – what was purchased or created. Furthermore, the public sector entities that received the funds do not provide information in their set of financial statements that a part of their activities in 2025 was financed from the resources of the Fund[22].

10. In accordance with the Law on Public Sector Accountability, the set of annual reports of entities, in addition to the set of financial statements nor the set of budget management reports, also includes an annual activity report containing information on the achievement of operational objectives; however, this provision does not apply to funds[23]. The Fund's set of accounts provides information on the expenditure incurred in implementing each of the objectives of the Law on the National Defence Fund for 2025; however, such presentation of information does not allow for an assessment of what specific results were achieved using the Fund's resources.

The chosen model for the allocation of the resources of the Fund did not ensure optimal management of financial resources

11. The Fund's revenue consists of state budget revenue, which the Ministry of Finance transfers to the Fund's account on a monthly basis based on taxes collected in the previous month. The Minister of National Defence determines the proportions of the above revenue to be allocated[24] to the institutions responsible for implementing the objectives set out in the Law on National Defence. In 2025, the funds from the temporary solidarity contribution were distributed between two institutions: 33.8 percent was allocated to the Ministry of National Defence, and 66.2 percent to the Ministry of Transport and Communications. It was planned that revenue from this contribution in 2025 would amount to EUR 90,000,000, with EUR 30,400,000 and EUR 59,600,000 allocated to the respective institutions[25].

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[22] The Defence Material Agency used the amount of EUR 177.28 million of the Fund's resources, the Ministry of Transport and Communications – EUR 55.57 million, the Ministry of National Defence – EUR 25.69 million (including EUR 13.44 million which was used by the Infrastructure Management Agency and EUR 2.58 million by the Lithuanian Armed Forces), the Lithuanian Armed Forces – EUR 22.78 million, the Infrastructure Management Agency – EUR 13.66 million, the Ministry of the Interior – EUR 2.48 million.

[23] Law on Public Sector Accountability, Article 6(1).

[24] Order No V-227 of the Minister of National Defence of 14 March 2025 "On the Proportions of the Distribution of Revenue of the National Defence Fund".

[25] Resolution No 93 of the Government of 19 February 2025 "On the Approval of the Distribution of Expenditure for 2025 Approved by the Seimas of the Republic of Lithuania in the Budget of the National Defence Fund".

12. In 2025, the Ministry of Transport and Communications received and used the amount of EUR 55,574.15 thousand. With these funds, the ministry-managed companies Via Lietuva AB and LTG INFRA AB carried out infrastructure projects (reconstructing roads and bridges, maintaining level crossings and performing other infrastructure works), the total value of which amounted to EUR 59,599.4 thousand. As the solidarity contribution received was less than planned, the resulting shortfall of EUR 4,025.25 thousand was covered by funds borrowed by Via Lietuva AB.

13. The unused balance of the solidarity contribution in the Fund as at 31 December 2025 amounted to EUR 4,014.59 thousand and would essentially have covered the shortfall in funding for the Ministry of Transport and Communications; however, its use would have breached the proportions established by order of the Minister of National Defence: the Ministry of Transport and Communications would have been allocated more than 66.2 percent of the solidarity contribution received by the Fund in 2025. This indicates that the applicable rules for the allocation of funds do not ensure the optimal use of available financial resources and result in the assumption of additional debt obligations.

The conditions for the use of the Fund's revenue are less favourable than those for the state budget appropriations

14. The unused balance of the resources of the Fund as at 31 December 2025 amounted to EUR 36,036.92 thousand, although the planned balance was EUR 10,128 thousand (this balance is included in the Fund's expenditure for 2026 approved by the Seimas[26]). A higher-than-planned balance of funds from the previous year is not considered surplus revenue when approving the budget; therefore, in 2026, it may only be used after the Fund's budget has been revised by the Seimas. Otherwise, the afore-mentioned funds may only be used in 2027.

15. Income tax funds accounted for 62.5% of the Fund's unused balance for 2025 (EUR 22,515.97 thousand). In 2025, EUR 25,000 thousand was allocated for the strengthening and development of civil protection[27], of which EUR 2,484,030 was utilised. In implementing the programme, the funds were allocated to three activities:

    - ✓ the development of shelter infrastructure (EUR 1,335.27 thousand used);
    - ✓ enhancing the preparedness and resilience of crisis management and civil protection system entities (EUR 1,148.76 thousand used);
    - ✓ enhancing the resilience of the health system (EUR 0 used).

    Projects in the first two areas of activity were funded through a competitive process, whilst funding for projects to enhance the resilience of the health system is provided through a planning-based approach.

16. When allocating the amount of EUR 25 million for strengthening civil protection, a project-based funding model was chosen, meaning that these funds were not distributed as direct grants, but municipalities had to compete for funding. Consequently, the chances of municipalities requiring funds for civil protection to secure them were reduced.

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[26] Law on the Approval of the Budget for 2026–2028, Annex 8.

[27] Law on the National Defence Fund, Article 3(1)(5).

Comment from the Ministry of the Interior

In the tender procedure for shelters, 56 out of 57 municipalities that submitted applications (project plans) received funding (i.e. 98%), whilst 20 out of 24 municipalities that submitted applications (project plans) received funding for the provision of collective protection structures (i.e. 83%).

Furthermore, the programme is being implemented until 2030 and project selection takes place annually, so all municipalities have the opportunity to receive funding on more than one occasion.

17. The applied project-based funding model did not ensure that funding was allocated to the municipalities with the greatest need, as no mechanisms were established to ensure that municipalities lacking shelter[28] participated in the tender procedure and received funding. Furthermore, in the funding of the activity “Support for civil protection projects, strengthening prevention, preparedness and stockpiling of essential supplies”, the call for proposals did not set out requirements regarding the quality of collective protection structures or the level of preparedness, leaving these aspects to the discretion of the municipalities.

18. A preliminary investigation carried out by the National Audit Office in 2025 showed[29] that some local authorities do not have a sufficient number of shelters, the existing collective protection structures do not always meet the established requirements for reception and living conditions, and the municipalities have not adequately planned the necessary measures and staffing.

19. In 2025, contracts worth EUR 20,333 thousand were concluded with municipalities[30]. Municipalities must complete the works under the contracts by 2026. Funds from the Fund are disbursed to them only upon submission of documents confirming the completion of activities planned in the project. In 2025, the amount of EUR 13,200,000 was transferred to the Ministry of the Interior, and the unused balance (EUR 10,715,970) was returned to the Fund. It should be noted that funds may only be disbursed to local authorities in 2026 once the Government has allocated the Fund’s expenditure for 2026; which took place on 4 March 2026[31], meaning that from the end of December 2025 until March 2026, municipalities were not paid for the carried out work.

20. The requirement to repay the unused balance of the Fund’s resources to the Fund’s account each year, even in the presence of commitments (planned expenditure and signed contracts), results in less favourable conditions for their use than in the case of state budget appropriations, where provisions are made to carry over funds for ongoing projects.

[28] Neringa Municipality has a sufficient number of collective protection structures (CPS), but lacked shelters; however, it did not participate in the Neringa Municipality funding competition.

[29] Preliminary study report “Modernisation of the public warning system, development of collective protection structures and shelters”, 6 June 2025, No ITE-1.

[30] Order No 1V-311 of the Minister of the Interior of 8 May 2025 “On the Allocation of Additional Funding for Projects Implemented under Activity “Development of shelter infrastructure” of Progress Measure No 07-019-10-04-01 “Strengthening Preparedness to Manage Crises and Emergencies and to Mitigate Their Consequences”, Order No 1V-189 of 20 March 2025 “On the Allocation of Funding for Projects Implemented under the Activity “Development of Shelter Infrastructure” of Progress Measure No 07-019-10-04-01 “Strengthening Preparedness to Manage Crises and Emergencies and to Mitigate Their Consequences”, Order No 1V-190 of 20 March 2025 “On the Allocation of Funding for Projects Implemented under the Activity “Support for Civil Protection Projects, Strengthening Prevention, Preparedness and Stockpiling of Necessary Supplies” of Progress Measure No 07-019-10-04-01 “Strengthening Preparedness to Manage Crises and Emergencies and to Mitigate Their Consequences”.

[31] Resolution No 125 of the Government of 4 March 2026 “On the Approval of the Distribution of Expenditure for 2026, as Approved by the Seimas of the Republic of Lithuania, in the Budget of the National Defence Fund”.

21. In 2025, the Ministry of the Interior returned unused funds to the Fund's account (EUR 10,715.97 thousand), the Ministry of National Defence (EUR 4,014.59 thousand, including EUR 2,954.33 thousand which was returned to the Ministry of National Defence by the Infrastructure Management Agency), the Infrastructure Management Agency (EUR 2,540 thousand), and the Lithuanian Armed Forces (EUR 1,327.76 thousand). The funds returned by the afore-mentioned institutions (excluding the Ministry of the Interior) are not included in the 2026 budget and cannot be used in 2026 unless the Seimas revises the Fund's budget during 2026. During the audit, the institutions expressed the view that the return of funds was not due to a reduced need for them, but to the inflexible management model of the Fund – funds could not be obtained whenever and however much was needed, but only when and in the amount that was received into the Fund's account, and strictly in accordance with the proportions set by the Minister of National Defence.

22. We identified problems with the Fund's financial management and informed the administrator of the Fund, the Ministry of National Defence, and the Ministry of Finance of these issues during the audit[32]: the results showed that the objectives set out in the Law on the National Defence Fund may not be achieved within the prescribed timeframes, as no guaranteed funding has been allocated for them[33], The Fund is accumulated over the course of the year, taking into account actual tax revenues[34]; funds reach the Fund via a longer route than appropriations reach their administrators[35], which posed a risk to the timely implementation of the most urgent priority needs for strengthening national defence capabilities and civil protection.

23. We recommended that the Ministry of National Defence amend the Fund's accounting model to ensure the timely financing of priority defence and civil protection measures, regardless of fluctuations and adjustments in tax revenue for the current month. Neither the Ministry of National Defence nor the Ministry of Finance has proposed measures to implement this recommendation.

24. The National Defence Fund was established with the aim of clearly identifying additional sources of National Defence Funding arising from tax changes and the introduction of new contributions, and transparently demonstrating the scale of these additional funding sources and their contribution to National Defence Fund. Prior to the establishment of the Fund, the following measures had been implemented:

    - ✓ increase in corporation tax and excise duty, and other changes relating to their payment;
    - ✓ the payment period for the temporary solidarity contribution was extended;

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[32] Letter No SD-(110-9.1.1-E-6276)-917 of the National Audit Office of 14 November 2025.

[33] Funding agreements between the institutions receiving funds and the National Defence Fund include a condition that funding will be transferred only if 'the Ministry of Finance of the Republic of Lithuania has transferred funds to the National Defence Fund and there is a sufficient balance in the National Defence Fund's treasury account'.

[34] Taxpayers may amend the data in their tax returns, so revenue received in one month may be adjusted in the following month. In such a case, the amount previously credited becomes an overpayment or an amount to be refunded to the taxpayer, and the Fund's revenue may be reduced after its transfer and may become a debt to the State Treasury.

[35] Taxes are first collected into the State Tax Inspectorate's account, from there to the State Treasury; from the Treasury, once the amount to be transferred to the Fund has been calculated, it is transferred to the Ministry of National Defence as state budget appropriations, and only finally transferred to the Fund's account administered by that Ministry. The afore-mentioned transfers take place at the end of the month, in the second half of the following month, once data on actual revenue collected (the amount of tax declared and paid by taxpayers during the previous month) has been received.

- ✓ a portion (EUR 25 million) of personal income tax, previously allocated to local authorities, was redirected to the Fund;
- ✓ a system of voluntary contributions was established, enabling natural and legal persons to contribute to the financing of defence.

25. During the previous audit, we noted that the Fund's money is essentially used for the same purposes for which the Ministry of National Defence receives state budget allocations, and we we recommended reconsidering the appropriateness of maintaining the Fund as a separate public sector entity for which a separate set of annual financial statements is prepared[36]. The institutions that have signed funding agreements with the Fund have taken measures to ensure that contractual obligations are met on time (borrowing or changes to programme estimates), however, the results of this audit have once again shown that, in practice, the resource fund established to operate as a separate public sector entity, and its funding model, do not contribute to the optimal management of the financial resources of the State.

The payment of taxes from the Fund's resources reduces the Fund's resources allocated for the implementation of the objectives set out in the law

26. In 2025, the Defence Material Agency under the Ministry of National Defence paid EUR 4,221.99 thousand as taxes to the State budget from the Fund's resources, as the import of goods gives rise to an obligation to calculate and pay import VAT[37]. When import VAT is paid from state budget appropriations, this constitutes an internal fiscal operation: the taxes paid flow back into state budget revenue. However, the payment of import taxes from the Fund's money reduces the Fund's resources allocated for the purposes set out in the law. The same result (payment of taxes) could be achieved without using the targeted resources of the Fund, by paying taxes from the State budget appropriations.

[36] Report No FAE-3 of 15 May 2025 "Results of the Financial Audit of the set of accounts of the National Defence Fund for the Year 2024".

[37] Law on Value Added Tax, Article 3(3).

PLAN FOR THE IMPLEMENTATION OF RECOMMENDATIONS

Expected impact of the audit: reduced administrative burden, clearer disclosure of expenditure and effective funding of urgent needs to strengthen the defence capabilities and civil protection of the State.

Key audit finding	Recommendation (desired change)/measures	Entity to which the recommendation is addressed/implementing the measures	Deadline for implementing the recommendations (desired change)**/measures***
Key audit finding 1 The financing model of the National Defence Fund does not ensure the correct classification of the State budget expenditure or the guaranteed and timely financing of the objectives set out in the Law on the National Defence Fund.	**Medium importance** 1. We recommend amending the Fund's accounting model to ensure the timely financing of priority defence and civil protection measures, regardless of fluctuations and adjustments in tax revenue for the current month.	Ministry of National Defence	-
	1.1. No measures were presented during the audit.	Ministry of National Defence	-

** The Ministry of National Defence is required to provide the measures and deadlines for their implementation.

*** During the monitoring of the implementation of recommendations, the measures specified in the plan for the implementation of recommendations may be refined or amended in accordance with the procedure set out in the Description of the Procedure for Monitoring the Implementation of Recommendations for Public Audit. An up-to-date list of indicators for the assessment of measures and changes is available in the open data of the National Audit Office at www.valstybeskontrole.lt.

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APPENDICES

Appendix 1 to
the Public Audit Report
“Results of the Financial Audit of the Set of Accounts of the National Defence Fund for the Year 2025”

Abbreviations and definitions

SBIR – set of budget implementation reports

SFS – set of financial statements

Fund – National Defence Fund

VAT – Value Added Tax

PSAFRS – Public Sector Accounting and Financial Reporting Standards

Appendix 2 to
the Public Audit Report
"Results of the Financial Audit of the Set of Accounts of the National Defence Fund for the Year 2025"

Scope and methods of the audit

The audited set of financial statements for the year 2025:

- ✓ the statement of financial position, performance report, cash flow statement and notes to the financial statements, prepared on the basis of data as at 31 December 2025.

The audited set of budget implementation reports for the year 2025:

- ✓ the report on the implementation of the budget as at 31 December 2025 and the explanatory notes thereto.

Subordinate, controlled and/or consolidated entities:

- ✓ the Fund has no subordinate, controlled or consolidated entities.
- ✓ materiality applied to the audit:
- ✓ quantitative materiality for the sets of financial statements and budget implementation reports – EUR 2.98 million.

A material matter in the financial statements and budget implementation reports of the Fund is defined as a misstatement or a series of misstatements exceeding 1 percent of the expenditure set out in the Fund's 2025 budget, which amounted to EUR 297.47 million in 2025. Given that a part of the Fund's revenue consists of voluntarily donated funds (voluntary contributions), and in view of the increased significance of reputation and public interest, this area is considered to be of qualitative significance. The absence of, or non-compliance with, key internal control measures is also considered a matter of qualitative significance.

Limitations on the scope of the audit:

- ✓ none.

The audit was conducted:

- ✓ in accordance with the International Standards of Supreme Audit Institutions (ISSAI)[38], which include the International Standards on Auditing (ISA)[39] ;
- ✓ with the aim of obtaining reasonable assurance that the financial and budget implementation reports are free from material misstatement. Absolute assurance is not possible due to inherent limitations of auditing and internal control.

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[38] ISSAI 2000–2899 "Financial Auditing Standards", available online: https://www.valstybeskontrole.lt/LT/post/15649/ (accessed on 30 March 2026).

[39] International Standards on Auditing issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants (Translated into Lithuanian by the Lithuanian Chamber of Auditors (until 28 February 2017) and the Audit, Accounting, Property Valuation and Insolvency Management Service under the Ministry of Finance of the Republic of Lithuania (from 1 March 2017)), available online: https://avnt.lrv.lt/lt/teisine-informacija/teises-aktai/auditas/ (accessed on 30 March 2026).

Scope and methods of the audit
Balances of assets and corresponding funding amounts, liabilities and net assets at the beginning and end of 2025:
– At the end of 2025, the total balance of assets and corresponding funding amounts, liabilities and net assets was EUR 36,036,915.49.
No revenue was received in 2025, nor were any expenses incurred.
Revenue received and expenses incurred in 2025:
– revenue – EUR 333,431,393.64; – expenses – EUR 297,469,810.62.
Areas assessed and procedures performed in relation to the data in the financial statements for the year 2025
Following an examination of the audited entity's operations, accounting and internal control systems, no areas were identified where there is a risk of material misstatement.
Areas in which the effectiveness of internal control procedures was assessed (control testing was performed):
– internal controls were not tested.
Areas in which substantive audit procedures were performed (substantive tests and/or analytical procedures):
– 100% (due to the small number of transactions) detailed tests were performed to obtain assertions on completeness, accuracy, existence, valuation, disclosure and legality; – preparation of the annual accounts – a 100% assessment was performed to obtain assurance on disclosure.
Overall assessment of the set of financial statements
To assess: – the appropriateness of the applied accounting policies, and the reasonableness of accounting estimates and related disclosures by the management; – the overall presentation, structure and content of the financial statements, including disclosures, as well as whether the underlying transactions and events are presented in these statements in a manner that complies with requirements of the Public Sector Accounting and Financial Reporting Standards; – the overall presentation, structure and content of the budget implementation reports, as well as whether the underlying transactions and events are presented in these reports in a manner that complies with the requirements for the presentation of the budget implementation report package.