



# ASSESSMENT OF THE 2018 SET OF NATIONAL FINANCIAL STATEMENTS AND THE DATA OF PUBLIC DEBT AND ITS MANAGEMENT

1 October 2019

No. FA-9

## SUMMARY

### The Objective and Scope of the Audit

We have conducted the audit of the assessment of the 2018 national set of financial statements, data of public debt and its management in accordance with the Law on National Audit Office<sup>1</sup> and the<sup>2</sup> Law on Public Sector Accountability.

The audit was conducted according to the Public Auditing Requirements, International Standards on Auditing and International Standards of Supreme Audit Institutions. The audit report contains only the items performed and identified during the audit and the independent opinion on the national set of financial statements is presented in the audit conclusion. The scope and methods of the audit are described in greater detail in Annex 2, Audit Scope and Methods (page 29).

### The main results of the Audit

#### 1. The financial statements contain material misstatements of data

With regard to the national financial statements for 2018, we are issuing a qualified opinion: It does not yet reflect the fair value of our state-owned assets and liabilities, and

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<sup>1</sup> Law on National Audit Office, Article 9, para 3, point 5

<sup>2</sup> Law on Public Sector Accountability, Article 30, para 2, point 5

income as there are significant errors in the accounts of the entities, most of which are recurrent over a number of years.

A significant proportion of tax revenue (97%) and the related receivables and payables are unreliable due to weaknesses in the Tax Accounting Information System. Work on improving this system was completed by the end of 2018.

57 % of institutions in the field of management of the Ministry of Culture. have valued the movable cultural (museum) property at the symbolic value of one euro rather than at their fair value.

The infrastructure and other structures, biological assets and cultural assets in municipalities are not properly accounted for and, as a result, the balance of fixed assets is less and does not reflect the real value of those assets.

Other reason why

Another reason for the material misstatement of the national set of financial reports is that it provides incorrect data to the consolidation system. The Ministry of Finance does not always find out the cause of the errors and therefore makes incorrect manual entries. We have encountered the following errors in the 2018 set of reports:

Another reason for the existence of material errors in the national set of financial statements is the entry of incorrect data in the consolidation system. The Ministry of Finance do not in all cases clarify the causes of errors, therefore they make incorrect manual entries. In the 2018 set of statements, we detected the following errors:

- The balance of funding from the European Union, foreign countries and international organisations is higher by 103 743.3 thousand EUR;
- The balance of funding from other sources is lower by 912 698.6 thousand EUR;
- The cost of funding is higher by 47 605.6 thousand EUR;
- The costs of depreciation and amounts written off is lower by 88 206.8 thousand EUR;
- The real value reserve is higher by 6 018 728.6 thousand EUR;
- The 2018 result increased (surplus increased) by 22 511.7 thousand EUR;
- The accumulated result reduced (deficit increased) by 6 084 423.7 thousand EUR.

The Consolidation information system has been designed in a way, so that the cumulative elimination and manual record information from the beginning of data entry in 2010 is transferred and is used to compile the current year's reports, therefore in some cases, it is necessary to analyse the data from the beginning of their entry in order to make a correct entry. We find it difficult for employees who make manual records (entries) to analyze (remember) nearly 10 years old information. It is therefore necessary to search for solutions that would allow to simplify the consolidation process and ensure, the compilation of correct sets of reports (section 1.1, pages 10-16).

## 2. We can have a public sector accounting process that would create a lower administrative burden

The recommendations made by the Supreme Audit Institution in audits of previous years and the findings of this audit indicate the need for progress in accounting processes:

- There is a lack of decisive solutions to simplify the accounting and reporting processes and to reduce administrative burden by not rejecting over-submission and duplication of information in the reporting sets, whereas the excessive number of these sets, for instance in the State Social Insurance Fund and Compulsory Health Insurance Fund, is created as a result of the existence of a large number of legal entities;
- Sets of budget reports are compiled by following different principles and formats, are incomparable and difficult to understand for users;
- Entities follow broad methodological requirements for accounting, allowing them to choose between different accounting methods, accounting estimates, even though their sets of reports are consolidated into a single set of national reports. Therefore, simplifying the methodological requirements for public sector accounting would reduce the administrative burden, facilitate the accounting process and thus reduce the error rate.

Solution of these problems would lead to a simpler and less burdensome public sector accounting process. Accounting requirements would be clearer for accounting professionals and reports would be easier to understand for their users, thus useful for budgeting, fiscal calculations or other economic assessments (Section 1.2, p. 16-21).

### 3. Data of the set of national statements is incomplete and deadlines for their delivery are not aligned

In the previous audit, we made two recommendations: to extend the scope of entities currently under consolidation to the general government sector and align the terms for reporting on performance with the terms of financial reporting to the Parliament. These recommendations are important in order to have timely and beneficial financial data in order to plan the budgets, to calculate fiscal and economic indicators, and to report to the Parliament. As a result of these recommendations, the Ministry of Finance has already prepared draft legislative amendments and submitted them to the public sector bodies for an opinion (sub-section 1.3, page 21).

### 4. There are no changes in the area of management of public debt and monetary resources - recommendations not implemented

Since the nominal value of the public debt has remained at a similar level for the 5-year period, the debt management costs also did not change and constituted 527.3 million EUR in 2018, or 8.5% of taxes, collected in 2018 (534.4 million EUR and 9.1% respectively in 2017). Cash balances in 2018 reached up to 2.5 million EUR, and approximately 6 million Euros were paid for their storage this year, similar to 2017.

In order to improve and optimise the management of public debt and monetary resources, the Supreme Audit Institution in previous audits recommended to the Ministry of Finance to:

- to develop internal controls ensuring systematic assessment of available debt instruments and their alternatives;

- to optimise the balances of state monetary resources by taking measures to improve the accuracy of forecasts of these resources and promoting and developing accountability of entities providing data for the developments of those forecasts;
- to ensure greater flexibility in applying different investment strategies.

These recommendations have not been implemented - we have missed actions to find ways to save the state budget funds by paying a lower price for both borrowed funds and keeping financial resources in bank accounts (sub-section 2.2, pages 23-25).

## 5. At the end of 2018, less than planned were accumulated in the reserves

Reserve accumulated for financial stability in 2018, has amounted to 496.8 million EUR at the end of the year, or 1.1% of GDP respectively and was by 65.5 million Euro lower than planned. We draw attention to the fact, that there are cases when we consider the funds we keep at the accounts as fiscal reserves, that are allowed by law to cover current expenses.

Compulsory Health Insurance Fund reserve amounted to 145.3 million EUR at the end of 2018, however, a large part of the reserve can be used to balance income and expenditure by the decision of the Minister of Health, to reimburse the cost of compulsory health insurance and to cover income shortfalls. Thus, in 2018, during the increase of the Fund budget, 80 million EUR of this Fund reserve were used for these purposes. The use of the reserve, rather than further accumulation under favourable economic circumstances, is contrary to Lithuania's Stability Programme for 2019.

It was planned to have 283.5 million EUR at the end of 2018 in the Reserve (Stabilisation) Fund, however actually it constituted 231 million Eur. It is noteworthy that a resolution of the Government has been drafted, proposing to change the legislation to allocate a part of the Fund receipts to the funds, that will be used to accumulate finances for the construction of the Ignalina Nuclear Power Plant deep radioactive waste repository and radioactive waste management. In case this decision will be implemented, a part of the Fund receipts would be used to cover future liabilities of the State and it would reduce the amount of the Fund resources targeted for the accumulation of fiscal reserves.

120.6 million EUR were accumulated in the Guarantee Fund and Long-term Employee Benefits Fund in the end of 2018

The Stability Programme for 2018 has planned that by the end of 2021, the government will have accumulated a reserve equal to 2 percent of GDP. Despite the fact that neither during 2017, nor in 2018, the planned reserves were not accumulated, in 2019 this Programme plans to collect a fiscal reserve of not 2 but 3.9 percent of GDP by 2021. (Sub-section 2.4, pages 25-26).

## Recommendations

### For the Ministry of Finance:

1. With a view to keeping fair data on the consolidated accounts of public sector entities, In order to achieve correct data in the public sector consolidated reports – to review the consolidation process for these entities financial statements review

the process of consolidation of such financial reports of public sector entities, the functionalities of the information system used for this purpose, the scope of accumulated consolidation information (transferred each year) and the measures to improve the consolidation process (First main audit result).

2. In order to have consolidated accounts drawn up by the public sector entities according to the uniform accounting methods and rules to decide on the application of a common (uniform) accounting policy. (Second main audit result).

Measures and deadlines for the implementation of recommendations are provided in the Section "Recommendations implementation plan" (page 27).