



NATIONAL AUDIT
OFFICE OF LITHUANIA
• BRINGING BENEFITS •

ASSESSMENT OF REGULARITY OF 2019 SETS OF STATE CONSOLIDATED FINANCIAL AND BUDGET EXECUTION REPORTS AND LEGALITY OF MANAGEMENT, USE AND DISPOSAL OF STATE BUDGET FUNDS AND PROPERTY

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SUMMARY

The Objective and Scope of the Audit

Pursuant to Article 134 of the Constitution of the Republic of Lithuania, the Statute of the Seimas, the Law on National Audit Office, the Law on Public Sector Accountability and the Law on the Budget Structure, we have conducted the audit of the 2019 set of state consolidated reports and evaluated the regularity of state budget funds and management, use and disposal of property in 2019 in the area of use of special targeted grants for education purposes selected for the audit. During the implementation of the works envisaged in the Programme of the Government 2016–2020 in the field of education, the full-time remuneration of teachers introduced in 2018 was substantially reviewed and revised in 2019. Around 90% (in 2019 – around EUR 622 million) of special targeted grants of the state budget for education purposes are used to pay teachers' salaries. In 2019, EUR 691.3 million, or 6.1% of all state budget funds, were used for special targeted grants for educational purposes. During the audit, we assessed the practical application of the new regulatory framework. This assessment is also provided in the public audit report "Do the Changes in Education Determine Pupils' Better Learning Achievements".

The audit has been performed in accordance with the Public Auditing Requirements, international auditing standards, and International Standards of Supreme Audit Institutions. The audit report includes only the matters performed and identified during

the audit, and independent opinions on the sets of consolidated state financial and budget implementation reports are expressed in the audit opinion. The scope of the audit and the applied methods are described in more detail in Annex 2 “The Scope and Methods of the Audit” (pp. 54–57).

Key Results of the Audit:

Set of State consolidated financial reports

1. The quality of centralised accounting function is being improved

Consolidation of the accounting function of the state budget and public institutions owned by the State started in 2018 and is carried out in stages. In 2019, the National Centre for General Functions managed the accounting of 126 institutions. During the previous audit, in order to improve the quality of accounting function and the Centre’s internal control system, we made recommendations to the Ministry of Finance and the Centre. We recommended to the Ministry to standardise the business processes, necessary for the centralised management of accounting. This process has been started and continued (to create the common information system for public sector finance management, the Financial Management and Accounting Subsystem of the State Budget, Accounting and Payment Information System managed by the Ministry of Finance was selected). According to the Ministry of Finance, on 1 July 2020, the Financial Management and Accounting Subsystem of the State Budget, Accounting and Payment Information System was used by 209 (out of 519) public sector entities, of which 188 will be managed centrally from 4 January 2021. The National Centre for General Functions has taken action and implemented recommendations on timely payments for employees, and correction of identified accounting errors and drawing up the sets of financial and budget execution reports in time. It is planned that the improvement of the accounting quality of entities by standardising processes, their application, and consolidation of functions will be implemented in stages until 01/07/2022 (Sub-section 1.1, pp. 15–17).

2. There are material misstatements in the set of State consolidated financial reports

In the 2019 State consolidated reports still there are significant mistakes and amounts, the correctness of which we could not confirm for various reasons.

The Tax Accounting Information System is used to manage the accounting of the tax fund of the State Tax Inspectorate. The system development investment project has been conducted in the period of 2016–2018 to eliminate the system deficiencies. Since the beginning of 2019, accounting has been managed by using a modified information system. It has been improved, but there are still shortcomings which still lead to incorrect registering of the fund’s receivables and payables and incorrect fund’s financial reports. For these reasons, we cannot confirm that a significant portion of data of state tax revenue (EUR 8,017.4 million, or 98%), other income from the main activity (EUR 34.7 million, or 3%), other activity income (EUR 38.0 million, or 17%), related long-term (EUR 11.3 million, or 1%) and short-term (EUR 1,095.3 million, or 42%) receivables and long-term (EUR 11.3 million, or 0.1%) and short-term (EUR 999.7 million, or 22%) payables,

depreciation and write-offs (EUR 51.3 million, or 12%), cash flow (EUR 36.3 million) in 2019 set of State consolidated financial reports are correct. We recommend to the State Tax Inspectorate to eliminate the shortcomings of the functions of the information system and ensure a consistent and traceable system (procedure) for the formation of financial reports from approved accounting registers.

A large part (40%) of movable cultural (museum) properties is still registered in the accounts with a symbolic value of one euro rather than at real value (at the end of 2019, the main and auxiliary funds amounted to 1,387.3 thousand of such items) and their valuation operations are not recorded correctly. For these reasons, the set of state consolidated financial reports does not show a true and fair view of fixed assets (movable cultural properties) and net assets (reserve of real value). The evaluation of cultural property is planned to be carried out by 31/12/2020. In 2019, a faster evaluation process (estimated 30% of the remaining unassessed properties during 2019) is being monitored, but it is unlikely to be completed at the planned time.

In the accounting of the Ministry of Energy, the part of the amortised cost of long-term liabilities related to the future costs of decommissioning of the Ignalina Nuclear Power Plant and the future costs of installing a deep waste disposal facility is incorrectly indicated. The Ministry did not follow public accounting standards and applied a new interest rate when recalculating the amortised cost of these liabilities (and related long-term receivables). Therefore, we cannot confirm the amortised cost of liabilities (long-term provisions) of EUR 655.7 million and changes in the result of financial and investment activities as indicated in the state consolidated financial reports.

When consolidating the data of sets of financial reports of public sector entities, the Ministry of Finance manually corrects their mistakes (data incorrectly entered into the Public Sector Accounting and Reporting Consolidation Information System). Due to the misstatements identified in the 2019 State consolidated financial reports, the balance of financing amounts (from the EU, foreign countries, and international organisations) was reduced (EUR 528.4 million), the balance of current assets (accrued receivables) (EUR 538.1 million) and other balances of other reporting items (long-term assets, liabilities, minority interests) were reduced. During the last audit, we recommended to the Ministry of Finance to improve the process of consolidation of financial reports, which the Ministry undertook to review by 31/01/2021.

The set of financial reports of courts and, respectively, state consolidated financial reports do not show a true and fair view of the income (other income of main activities) and the amounts receivable and payable related thereto, as the situation regarding court stamp duty and the accounting of fines imposed has not changed so far – the courts do not record this income in the accounting. According to the data of the State Tax Inspectorate, in 2019 EUR 17.9 million of stamp duty and fines were paid to the State budget. The National Courts Administration took action to change the situation: it is looking for ways to adapt the information system used by the courts for the accounting of this tax.

In order to ensure the quality of public sector entities' reports, it is essential that the consolidated group financial reports are prepared using the same accounting policy for the same economic events. During the last audit, we recommended to the Ministry of Finance to take decisions on the adoption of a common (uniform) accounting policy in the public sector. We look forward to the implementation of the recommendation in the

second quarter of 2021. In 2019, incorrect accounting of income and related costs remained in the institutions of the consolidation group of financial reports of the Ministry of Health (in the hospitals), leading to delays in the implementation of the recommendations. In the financial reports consolidation group of the Ministry of Education, Science and Sport (educational) institutions, we found incorrect accounting of income for accommodation services in dormitories and related costs, therefore, we made a recommendation to the Ministry.

Accounting errors detected each year only confirm the importance of the recommendation made by the National Audit Office to the Ministry of Finance in 2017. The aim was for all public sector entities to carry out a review of their activities, assets, and liabilities and to assess whether this is reflected in their financial reports. We can see that the measure chosen by the Ministry (a recommendation on the review of activities and the strengthening of internal control) has not had a positive impact. None of the institutions surveyed (whose data are consolidated) found weaknesses in the accounting process following a recommendation made by the Ministry, although each year the results of public audits show that they exist (Sub-section 1.2, pp. 17–31).

Set of State budget execution reports

3. The set of budget execution reports is correct in all material respects, but decisions on the accurate disclosure of revenue by type are still expected

We did not detect any material errors in the 2019 set of state budget execution reports. The issue of accurate disclosure of state revenue by type remains unresolved – the Ministry of Finance continues to use the data of the State Tax Inspectorate tax fund for the set of state budget execution reports, which do not take into account changes (between types) after the registration of the final declarations submitted by taxpayers of the reporting period. The impact of deviations in recent years is not significant (the Inspectorate prepares and submits revised data to the Ministry), however, correct data is needed to improve the quality of the set of state budget execution reports, important for the calculation of the country's macroeconomic indicators and budgeting for future periods. During the last audit, we recommended to the Ministry of Finance to choose measures to implement the recommendation, but so far there are no decisions taken (Sub-section 1.3, pp. 31–33).

Budgetary governance

4. This year a new strategic management system was introduced, however work required for the preparation of the new quality medium-term budget is delayed

High-quality and result-oriented budgetary governance is a guarantee of a rational and transparent allocation and use of state resources. Since 2016, the National Audit Office has been making recommendations to the Government to improve budgetary governance in the public audit reports. Their implementation is delayed. According to the work schedule for the reform of the Strategic Planning and Budget Formation System, the Law on Strategic Management and the Strategic Management Methodology were planned to

be approved in the fourth quarter of 2019. The Law and its related package of laws were adopted on 25/06/2020. The Law establishes the principles of the new strategic management system, the levels and types of planning documents, their interlinkages and influence on fund planning, participants of this system, their rights and duties, and the provisions for the governance of the strategic management system. Following this Law, the National Progress Plan is being prepared, covering all areas of activities of the State, setting strategic objectives, progress targets, impact indicators, specifying horizontal principles, setting out the participants of the strategic management system responsible for their implementation, as well as financial projections. The amended Law on the Budget Structure provides that the adoption of the budget for the year concerned shall specify the main progress targets set out in the National Progress Plan, their evaluation indicators, the actual values of these indicators for the nearest subsequent period and approve the target values for the relevant budget year. Transitional measures of the State Investment Programme have been implemented, the selection of public investment projects has been tightened, the amended Investment Act provides that this investment programme will be carried out until 31/12/2020 for the implementation of planned and selected investment projects and no later than on 31/12/2025. This creates legal preconditions for the implementation of our recommendations related to state budget planning and reporting for its implementation and improvement of the state investment system. The 2021–2030 National Progress Plan was adopted on 09/09/2020. In 2020, the Government plans to approve the Strategic Management Methodology detailing the implementation of the provisions of the Law on Strategic Management Methodology (Sub-section 2.1, pp. 36–37).

5. Financing of expenditure not approved in the budget reduces the transparency of budget formation and increases the risk of derogating from fiscal discipline requirements

The Law on the Budget Structure and the Law on Financial Indicators for the corresponding year entitles the Government to use the funds borrowed on behalf of the State in excess of the total amounts of appropriations approved by the Seimas. The current practice shows that when implementing the budget, the Government borrows and allocates the funds borrowed on behalf of the State to institutions by resolutions to finance certain expenses not provided for in the State budget, while the State budget approved by the Seimas is not revised. It was not revised in 2019 either, when the Government committed EUR 200.6 million of funds borrowed on behalf of the State to finance certain expenditure (contributions to the EU budget, child benefits and pension contributions, defence obligations related to NATO membership, etc.), of which EUR 178.2 million (1.6% of total expenditure) was actually used. An exceptional situation occurred in 2020. As part of the implementation of the Economic Stimulus and COVID-19 Consequences Mitigation Plan, the Government was authorised (revised Law on Financial Indicators) to borrow an additional EUR 4,496.8 million, but the 2020 budget was not revised. Particularly large fiscal measures to mitigate the economic consequences of COVID-19 were not included in the appropriations approved by the State budget, nor were revenue collection plans being revised. During eight months of 2020, EUR 2,694.7 million was allocated from borrowed funds for the implementation of COVID-19 management strategy and related plans, and EUR 1,311.2 million was used. According to the National Audit Office, the current practice of financing “over-budget” expenditure is flawed. It shows not only weaknesses in planning (when part of the potential public expenditures

are not indicated in the Law on Financial Indicators), it does not show a true picture of public finances and, which is particularly important, increases the risk of breaching the requirements of fiscal discipline. In 2016, we made a recommendation to the Government to initiate amendments to the legal acts after deciding what financial indicators and how many of them the Seimas must approve, and the extent of rights to be granted to the Government to implement the budget. We are still awaiting the implementation of the recommendation (Sub-section 2.2, pp. 37–40).

Management, use, and disposal of state budget funds and property

6. Regulation establishing the allocation and use of state budget grants for education needs to be improved

The so-called student basket, which has been effective for almost two decades (since 2002), was replaced in 2018 by funding based on a class (group) basket, where the majority of the funds allocated to schools depend not on the number of learners in a particular school, but on the number of completed classes. In 2019, the Ministry of Education, Science and Sports allocated EUR 729.9 million to municipalities for special targeted grants, of which EUR 691.3 million or 6.1% of the total state budget funds was used for education purposes. Grants for financing of education needs are calculated, allocated, and used according to the description approved by the Government Resolution. A part of these funds is calculated and allocated to schools according to the number of learners and/or the number of completed classes in each of them; the other part is distributed among municipal schools in accordance with the procedure approved by it. We have found that in practice each audited municipality applies different principles of distribution of funds to schools (depending on their size or other specific features), however, the applied principles have not been specified in their approved procedures. We recommended to the Ministry of Education, Science, and Sports to set the requirements for the allocation of education funds approved by municipalities. After the examination of how the 60 audited schools complied with the procedure description requirements of at least 40% or 80% of funding for certain uses, we found inconsistencies in 22 schools. Having assessed the reasons for non-compliance, we recommended to the Ministry to revise the requirements establishing the obligation for schools to allocate funds for relevant needs in accordance with the set amounts (40% and 80%). Since the procedure description does not specify the use of funds for the acquisition of textbooks and other teaching aids, cognitive activities and vocational guidance of pupils, the qualification of teachers and other persons involved in the education process (about 2% of the total amount of grants for education purposes is used for these purposes), and the practice in schools is diverse, we recommended to the Ministry to specify the expenditure that schools can cover from state budget grants (Sub-section 3.2, pp. 48–50).

7. Legislation does not set out the principles for forming the structure of teachers' workload, working less or more than the full workload

90% of all the funds allocated for education purposes (EUR 622 million) were used to pay the salaries of teachers and educators. In 2018, the principles of remuneration for teachers and educators were substantially changed: a full-time payment procedure was introduced for their work, which was reviewed and revised in 2019. We have established that the current legal regulation does not provide for the principles of setting up a full-time payment procedure for teachers (workload structure) in cases where teachers have

a workload greater or lesser than 1 full-time work-load (1512 hours per school year). 65% of teachers working in general education institutions have a workload lesser than 1 full-time work-load. Schools were granted the right to decide independently on the allocation of time to activities performed by the teacher for the school community and professional development, increase coefficients of the fixed part of the official salary, etc., however, shortcomings were found in more than 45% of the audited schools: internal legislation does not lay down the criteria necessary to justify objective decisions on teacher remuneration, or to identify specific activities for which the teacher receives a salary. Schools lack the assistance (consultation, clarification) of the Ministry of Education, Science and Sports in implementing the provisions of the legislation, the lack of automated and standardised documentation, which increases the administrative burden for schools and the incorrect application of legislation.

We recommended to the Ministry to regulate the principles of the structure of teachers' workload in cases where the annual hourly rate of workload is set higher or lower than the annual rate of workload and to provide assistance to schools in implementing the legislation. We informed 41 schools (out of 60) on the shortcomings identified in internal legislation and in determining the structure of teachers' workload and made recommendations concerning their elimination (Sub-section 3.1, pp. 46–48).

Recommendations

To State Tax Inspectorate under the Ministry of Finance

In order to have the correct and reliable data on the financial statements of the tax fund of the State Tax Inspectorate, to eliminate the shortcomings of Tax Accounting Information System functions, and to create a consistent and traceable system (procedure) for the formation of financial reports from approved accounting registers (2 key audit result).

The measures, deadlines, and indicators for the implementation of the Recommendation, according to which we will assess the situation, whether the implemented measures achieved the planned result and created the expected change, are presented in the Section "Recommendation Implementation Plan" of the report (pp. 51–52).

To other institutions

In the course of the audit, observations and/or minor recommendations were made to 43 institutions (out of the 55 audited) on the elimination of accounting shortcomings and the strengthening of internal control. Also, observations and/or recommendations were provided to 41 schools (out of 60 audited) during the public audit "Do the Changes in Education Determine Pupils' Better Learning Achievements?" regarding the improvement of internal legislation and teacher workload structure.