



NATIONAL AUDIT
OFFICE OF LITHUANIA
• BRINGING BENEFITS •

ASSESSMENT OF REGULARITY OF 2018 SETS OF CONSOLIDATED FINANCIAL AND BUDGET EXECUTION REPORTS AND LEGALITY OF MANAGEMENT, USE AND DISPOSAL OF FUNDS AND PROPERTY OF THE STATE SOCIAL INSURANCE FUND

30 September 2019

No. FA-2

SUMMARY

The Objective and Scope of the Audit

Pursuant to the Law on National Audit Office¹, and the Law on Public Sector Accountability², we have conducted the audit of the assessment of regularity of 2018 sets of consolidated financial and budget execution reports and legality of management, use and disposal of funds and property of the State Social Insurance Fund.

The audit was conducted in accordance with 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 consolidated financial and budget execution reports 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 (pages 25-27).

¹ Law on National Audit Office, Article 9 (1)(5)

² Law on Public Sector Accountability, Article 30

The main results of the Audit

1. It is not appropriate to draw up two sets of reports based on the same principles

This year, as with many previous years, the annual results provided by the State Social Insurance Fund Board are very different in the sets of financial and budget execution reports drawn up on the same accrual basis, however the cumulated result of the Fund is the same in both sets and is equal to EUR 486.6 million in profits. The summation of the different results for the year makes it impossible to obtain a uniform cumulative result, thus indicating that accounts were not kept in accordance with the requirements applicable to it. Already in the course of the previous audit, we recommended that consumers should be provided with one accruals-based set by presenting all relevant data on the implementation of the budget of the Fund in the reports (sub-section 1.1, page 11).

2. It is necessary to harmonise the principles for budget formulation of the administrator and the funds it administers

The budgets of the Guarantee and Long-term Employee Benefits Funds administered by the State Social Insurance Board are adopted under different laws and principles: the budget of Social Insurance is adopted pursuant to the Law on Social Insurance Indicators on accrual basis, whereas the budgets of the Guarantee and Long-term Employee Benefits Funds are adopted pursuant to the Law on the State Budget Indicators on cash basis. As a result of the non-harmonised legislation and the application of different principles, the State Social Insurance Fund Board received an increase of EUR 0.07 million (sub-section 1.2, pages 14-15) in respect of the collection of contributions and the transfer to the Funds.

3. The 2018 sets of consolidated financial and budget execution reports of the State Social Insurance Fund contain material misstatements

The sets of consolidated financial and budget execution reports of the State Social Insurance Fund are not in all cases compiled in accordance with the provisions of public sector accounting standards and other legal acts regulating accounting and accountability:

- the reported data does not show a fair view of the financial position and results of the Fund as it also discloses the results of its other activities of EUR 132.5 million in terms of assets and liabilities, EUR 128.1 million in terms of income and equal costs;
- The result of the Fund has been increased by EUR 4.6 million through inappropriate cost recognition methods;
- The information about EUR 0.2 million expected to be recovered assets is not disclosed;
- The information on the actual receipts is presented in a way that is not comparable with the data approved by the Law on the Approval of the 2018 Indicators of the Social Insurance Fund.

For these reasons, and for the reasons explained in the 2nd main audit result, the sets of reports do not reveal the correct data of the Fund and are not sufficiently informative. The identified accounting errors increased the Fund's result for the year by EUR 4.6 million and the amount of EUR 0.07 million had effect on the fairness of the Fund's reserve calculation (sub-section 1.2, pages 12-16).

4. The decisions taken regarding the optimisation of the Fund's management structure are insufficient

The abundance of errors in accounting for the State Social Insurance Fund and an inadequate selection of accounting methods is an indication of the need for optimisation of the system itself. This concerns both the need to modernise the information systems used for tax accounting and the need to simplify the management structure of the Fund. In the course of the previous audit, we recommended the merging of the 13-fund managing bodies into one legal entity. The SSIF could be run in the whole of Lithuania by a single body and, following the optimisation of the accounting process, have only one set of reports, but the implementation of the envisaged recommendations has resulted in a decision to propose a reorganisation of only 2 institutions: the SSIF Foreign Benefit Service and SSIF Military and equivalent structures division by connecting them to the SSIF Vilnius branch. We consider that this simplification of the management structure is insufficient and, without further action on the merger of the administration of the Fund into a single legal entity, the accounting process will remain complex (sub-section 2.1, page 16).

5. Part of the contributions and benefits of the Fund are not balanced and their shortfall is compensated by pension social insurance income

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Every year, the draft Law on Budgetary Indicators of the State Social Insurance Fund does not plan the rates of these types of contributions that would ensure sufficient funding for all types of social security. The shortfall is compensated by the pension social security income, which is the only one above the cost of this insurance. Shortfalls continue to be planned for the part of social insurance benefits: EUR 15.3 million in 2019, EUR 21.4 million in 2020, EUR 29.4 million in 2021.

As the results are not accumulated according to individual types of insurance, this limits the possibility to adopt justified economic decisions in the context of budget planning (sub-section 2.2, pages 17-18).

Under the legislation in force, the pensions are indexed according to the indicators for pension contributions/payments. Subject to their own indexation, a situation may arise in which the overall annual result of the Fund would be negative. In addition, this result would be even worse because other forms of social security are also covered by the pension social insurance surplus. In this way, indexation of pensions, in accordance with legislation, would lead to a shortage of funds for the payment of social benefits. This would affect not only the indicator of the Fund as a whole, but also the general government balance indicator and the Fund may need to borrow or use the reserve fund (sub-section 2.2, pages 18-19).

6. So far, a common social security system funded by the State and social insurance budgets has not been established

The Supreme Audit Institution has repeatedly drawn attention to the fact that the social security system has not been cleared – state social insurance and social assistance parts have not been separated. With this regulation, situations occur in the field of social policy where the State, in order to address social problems, to improve the conditions for families, the least employed persons, assumes the statutory obligation to increase benefits (such as maternity leave) or use social security funds to pay benefits, which have the characteristics of social assistance (survivor's benefit, special compensation for extraordinary working conditions, compensation for the funeral of deceased pensioners). In response to this recommendation, the Ministry of Social Security and Labour has planned to repeal the Law on the Fundamentals of Social Support System. In our view, this will not solve the problem, since the concept of State social insurance is broad and allows the Fund to pay benefits in the form of social support, provided that such benefits are provided for by law. Such a decision is not in line with the financial possibilities of the State Social Insurance Fund (sub-section 2.3, pages 19-20).

7. The objective of ensuring all social guarantees for the lowest income earners is not achieved

The amendments to the Law on State Social Insurance, which entered into force on 2018-07-01, will not allow the set objective to be achieved by ensuring the possibility for people on the lowest incomes to accumulate years of service and access to full social guarantees. On the basis of an evaluation of the application of the law, we see that the recruitment of a worker with a total of less than full post will not lead to the payment of a public social security contribution from an amount not lower than the difference between the minimum monthly salary adopted by the Government and the insured person's calculated salary (sub-section 2.4, pages 20-21).

8. Due to weaknesses in contribution management a lower amount transferred to the Reserve Fund

The provisions of the Law on Accumulation of Pensions do not provide for the covering of additional pension contributions in the order of priority in respect of social security contributions, however the State Social Insurance Fund Board provided, without a legal basis, the right of priority for this payment in relation to the state social security contributions. The amount that was not transferred by insurance policy holders has been transferred by the Fund to the pension companies from social security funds, but this is not in line with the concept and the types of costs provided by the law. Such

transfers reduce the amount transferred to the State Social Insurance Reserve Fund (sub-section 2.5, pages 21-22).

Recommendations

To the Ministry of Social Security and Labour

1. In order to harmonise the application of the provisions of the legislative acts governing the activities of the Guarantee and Long Term Employee Benefits Fund and their Administrator, we recommend to initiate amendments to the legislation so that the estimates of these funds are approved together with the State Social Insurance Fund budget, by carrying out an assessment of application of the same principles to the formulation of their budgets (2nd main audit result).

The measures and deadlines for the implementation of recommendations are set out in the “Recommendations Implementation Plan” section of the report (page 23).

In order to have reliable data on the accounts and optimise the Fund’s activities, it is important to implement the recommendations from the previous audit (public audit report No FA-2018-10-01-2018-6 “Assessment of regularity of 2017 sets of consolidated financial and budget execution reports and legality of the management, use, and disposal of funds and property of the State Social Insurance Fund”):

1. To ensure the provision of reliable financial information to consumers, to optimise the accounting and reporting process: refuse to draw up two sets of reports on the same accrual basis and provide important data on the implementation of the Fund in one set of reports;
2. In order to optimise the operation of the Fund and to simplify the management structure of the Fund, to merge 13 administrative bodies of the current fund into a single legal entity;
3. To use the accounting methods/procedures to ensure that the accumulated result is presented by separate social insurance types (taking into account that the law approves not only the general rates of contributions but also their values for certain social security types);
4. To revise the SSIF accounting organisation process so that the data of SSIF, CSIF, GF and LTEBF are presented in financial statements in accordance with the entity principle enshrined in the Law on Public Sector Accountability.