



# NATIONAL AUDIT OFFICE OF THE REPUBLIC OF LITHUANIA

## ANNUAL REPORT 2006

28 February 2007 No Y-1  
Vilnius

### AUDITOR GENERAL RASA BUDBERGYTĖ'S WORD



One of the key objectives of our institution is to promote the accountability of the public sector, the management oriented towards results and public needs, and the introduction of advanced financial management and control systems. We form an opinion about whether the financial statements of public bodies regarding taxpayers' money and public property give a true and fair view, and whether the resources were properly applied to the intended purposes.

In this report we present information on our main work accomplished in 2006, and plans for the next year. An extract from the financial statement 2006 of the National Audit Office of Lithuania (NAOL) and an independent auditor's opinion are appended to this report.

In the last year, our institution focused mostly on implementation of the audit strategy, and improvement of the quality of public audit and of institutional processes. With the aim of ensuring that the implementation of recommendations made during auditing was more effective, we fostered the relationship with the Seimas: we improved the co-operation with the Committee on Audit of the Seimas, other committees, commissions, and members of Seimas. We started setting-up of a system for managing relations with audited bodies, which should allow a more effective coordination of audits, and enable avoiding a needless disturbance of audited bodies.

The audit environment is ever changing, technologies are progressing, and new audit techniques are being employed. In response to such challenges, we were improving the methodology of public

audit. As new methodological solutions require a lot of knowledge, we have been carrying out in-service training programmes for the staff of the NAOL in order to improve administrative, professional, and personal competencies.

We started implementing a system for ensuring organisation, accounting, and quality, which is in line with future requirements. We have reviewed the public audit documentation system and transferred it on the electronic medium.

In the last year, we accumulated and disseminated best practice in the activity organisation, use, and accounting of budget funds and public property of the public sector bodies. We started developing a system for the dissemination of good practice aimed at helping the public bodies to share their best practice in activity organisation and performance.

In 2006, we remained an active member of the audit community at both national and international level: we not only continued bilateral and multilateral cooperation with supreme audit institutions in other states and with EU institutions responsible for the transparent and proper use of the EU budget, but also actively encouraged the cooperation between both external and internal auditors of Lithuanian public bodies.

In 2007, we decided to audit areas that are important and topical for the public including Quality Assurance System for Personal Healthcare, Implementation of the Labour Market Policy, Fulfilment of the Business Innovation Programme, and Public-Private Sector Cooperation.

We will continue to improve qualification of auditors, elaborate the methodology of public audit in order to achieve a higher quality of the audit. We will remain active partners and advisers to all the public sector institutions in Lithuania. We will seek not only to assess, but also to become an active adviser and contributor promoting a progress in the public sector.

With a view to actively contributing to the parliamentary control of public finances, we will enhance the cooperation with the Seimas, the communication with audited bodies, and the preventive impact of public audit.

I would like to thank all the staff members of the NAOL for their conscientious work that demands a constant endeavour.

I would also like to thank the management and staff of all the audited institutions and organisations for understanding and efforts in pursuing the common goal: wise management and use of public property, funds, and other resources, and improvement of the quality of public services provided for Lithuanian people.

I would like to address my special thanks to the members of the Committee on Audit of the Seimas for their assistance in pursuing of a more effective implementation of public audit recommendations.

## KEY RESULTS AND EVENTS IN 2006

- The National Audit Office of Lithuania presented to the Seimas mandatory opinions on the account of the execution of the State Budget 2005, report on the public debt, report on the State-owned property, and on the Draft State Budget 2007.
- The NAOL conducted:
  - financial audit of four public accounts and 88 public bodies and institutions covering LTL 12.2 billion or 82.3 per cent of the total State Budget appropriations spent in 2005;
  - 34 performance audits, including 2 audits of information systems and 4 audits regarding the European Union financial assistance and the integration of Lithuania into the European Union;
  - audits of 9 administrations of municipalities regarding target State Budget subsidies allocated for performing of public functions (delegated to municipalities) and for financing of the pupil's basket;
    - 7 mandatory audits of the European Union financial assistance;
    - External review of 15 financial audits and 7 performance audits conducted by 15 municipal controllers (audit services).
- The Committee on Audit of the Seimas considered 19 performance audit reports and 13 financial audit reports. The Seimas adopted 6 resolutions and the Committee on Audit of the Seimas passed 15 decisions on performance of our institution and on public audit reports.
- Of the recommendations made in public audit reports in 2006, 91 per cent recommendations were implemented, fully or partially.
- In addition to the opinion whether the data of financial and other accounts of an audited body are true and fair, the public audit opinions for the first time also highlighted whether the management, use, and disposal of public funds and assets is lawful, and whether these resources were used for purposes provided for by the law.
- We started implementing the Public Audit Strategy 2006-2010.
- We transformed the structure of the NAOL for a more rational and effective use of resources.
- We developed an initial draft of the concept "On the Development of the Legal Basis of the National Audit Office of Lithuania".
- We developed and started implementing a computerised audit management and documentation system.
- We started implementing the project "Continuous Professional Development of the Staff of the National Audit Office of Lithuania for improvement of administrative skills and personal qualities" financed by the European Union.

- Experts of the SIGMA Programme for Assistance of the European Union to the countries in Central and Eastern Europe (hereinafter referred to as SIGMA) issued a detailed Peer Assistance Review Team Report on performance of the NAOL, in which it was noted that the NAOL is now a modern supreme audit institution which operates to appropriate benchmarks.
- The NAOL, together with the Committee on Audit of the Seimas and the Ministry of Finance organised a meeting of representatives of supreme audit institutions, parliamentary Audit Committees and Ministries of Finance of Estonia, Latvia, and Lithuania with the aim of exchanging and sharing know-how and good practice in order to foster the cooperation between the said institutions for ensuring the accountability of the public sector. The Vice-Chairman of the Budget Control Committee of the European Parliament Mr Herbert Bösch, a member of the European Court of Auditors Ms Irena Petruškevičienė, and SIGMA experts also attended the meeting.

# 1. THE NATIONAL AUDIT OFFICE OF LITHUANIA: SUPREME PUBLIC AUDIT INSTITUTION

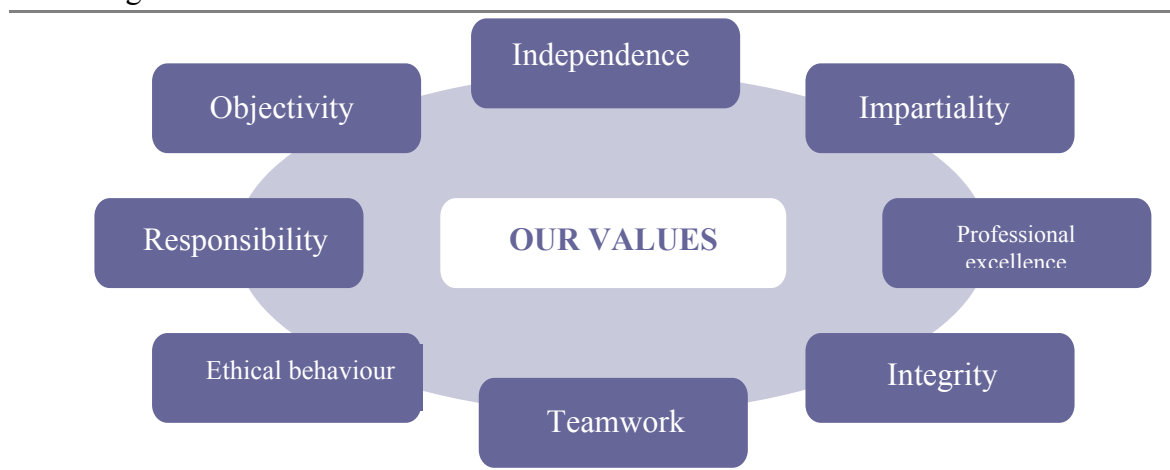
The National Audit Office is a supreme public audit institution accountable to the Seimas.

*Law of the Republic of Lithuania on the State Control*

## 1.1. MISSION, VALUES, AND STRATEGIC GOALS

Our mission is to help the State manage and use property, funds, and other resources wisely thus assisting the Seimas in execution of parliamentary control, and promoting progress in public sector, as well as supervising lawfulness of the management and use of the public property and the execution of the State Budget.

Figure 1. Values of the National Audit Office



Strategic goal of public audit is to promote accountability in the public sector, as well as management oriented towards results and public needs, and advance in financial management and control systems.

Main objectives of the National Audit Office of Lithuania are the following:

- to supervise whether public assets are managed and used lawfully and efficiently, and how the State Budget is executed;
- to enhance the positive and effective influence of public audit on the public finance management and control system as well as on the public management oriented towards results and public needs.

In 2006, our institution's strategic goals were:

- to strengthen parliamentary control exercised by the Seimas in the area of public accounts and revenue;
- to promote a transparent and efficient management and use of the financial assistance granted by the European Union, and protect financial interests of the European Union;
- to encourage introduction of the advanced financial management and control systems in the public sector;
- to promote results-oriented management in public administration bodies.

Figure. 2. Activities of the National Audit Office



The Law on the State Control regulates our institution's activities. Amendments to the Law entered into force at the beginning of 2006 revised objectives and aims, remit, rights, and responsibility of the National Audit Office, as well as included new provisions on the cooperation of the institution with the Seimas and the Government.

Being committed to continuous self-improvement and internationally recognised best practice, the NAOL requested experts of the SIGMA to carry out the second evaluation of the institution's performance (the first one was carried out in 2000) who subsequently presented a detailed report (summary of SIGMA Report is appended) in March 2006.

According to the SIGMA experts, the National Audit Office of Lithuania works professionally, it is technically well equipped, and operates in compliance with international standards. Nevertheless, as regards best practice, they suggested some improvements. Encouraged by specific and constructive recommendations of the SIGMA experts, the NAOL constantly endeavours to improve the quality and standards of both financial and performance audits, as well as effectiveness of the institution's work and activities, and the Lithuanian public accounting system.

The National Audit Office of the Republic of Lithuania is now a modern and functioning supreme audit institution.

*SIGMA Review Report*

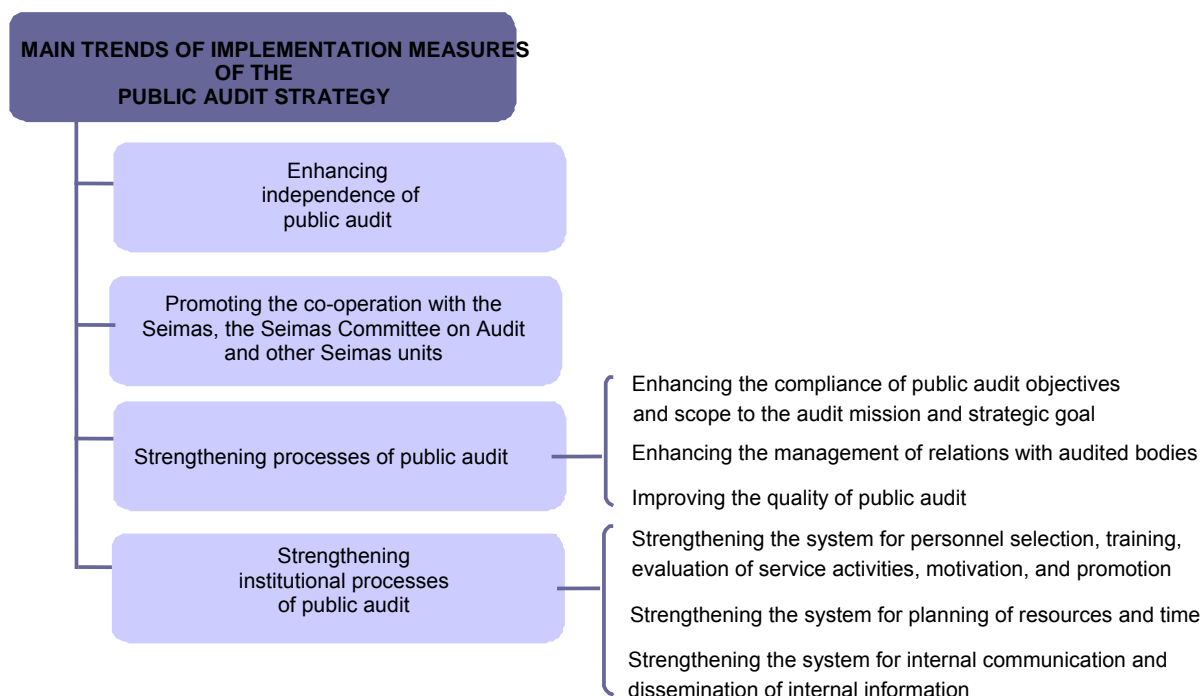
With a view to improving the quality of audit and enhancing institutional processes, the National Audit Office of Lithuania took into account recommendations of the experts when preparing the Public Audit Strategy 2006-2010, annual plans of implementation measures of the Strategy, and Strategic Action Plan 2007-2009.

## **1.2. PUBLIC AUDIT STRATEGY 2006-2010**

Being involved in the process of modernisation and development, the NAOL as the supreme audit institution found it necessary to elaborate a strategy for the public audit in order to reconsider the institution's objectives and needs.

The Public Audit Strategy outlines implementation measures and their timetable, general and specific objectives of public audit, the hierarchy of plans of the National Audit Office; the chronology of planning of the annual audit cycle, a quality assurance system of public audit, possible risks that may hinder the implementation of the Public Audit Strategy, and measures for managing and mitigating such risks.

Figure. 3. Main trends of implementation measures of the Public Audit Strategy.



Every year the NAOL develops a plan of implementation measures of the Public Audit Strategy. For the information on work conducted in 2006, see chapter 1.3 of this Report, “The National Audit Office on Its Way to the Institutional Development”.

### 1.3. THE NATIONAL AUDIT OFFICE OF LITHUANIA ON ITS WAY TO THE INSTITUTIONAL DEVELOPMENT

#### Organisational Structure and Staff

While implementing the Public Audit Strategy 2006-2010 and in order to ensure the efficiency of the audit and better co-ordination of both performance and financial audit, the National Audit Office of Lithuania carried out its reorganisation in 2006. The number of departments was reduced by more than a half (from 15 to 7) (see Figure 4. on the next page).

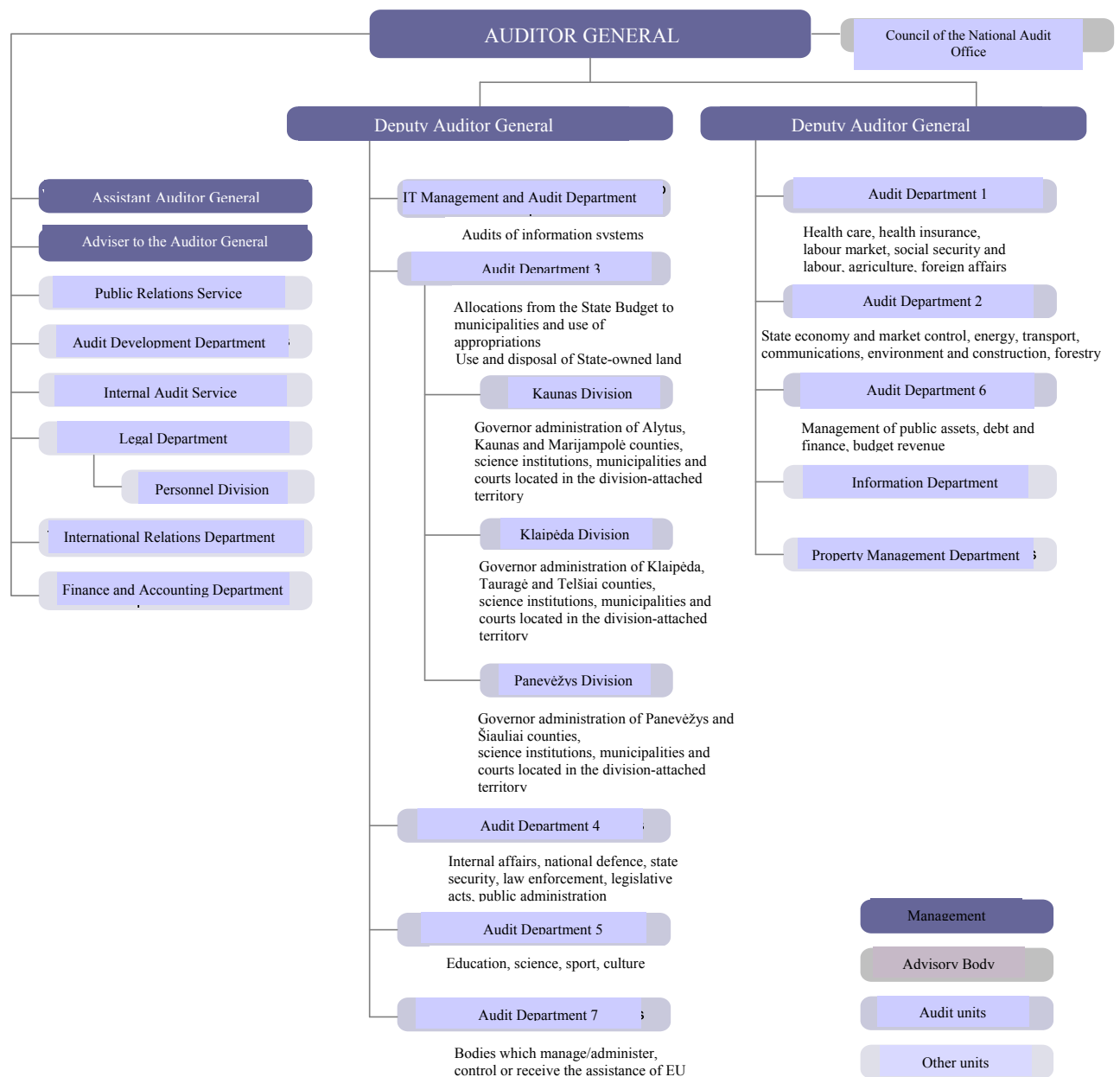
As a result of restructuring of the NAOL, the former Financial Audit and Performance Audit Departments were merged, the Information Technologies Management and Audit Department was established for auditing of information systems, and also the Audit Development Department



appeared for supervising the application of audit methodology, training, computerised audit tools, and implementation of the Strategy.

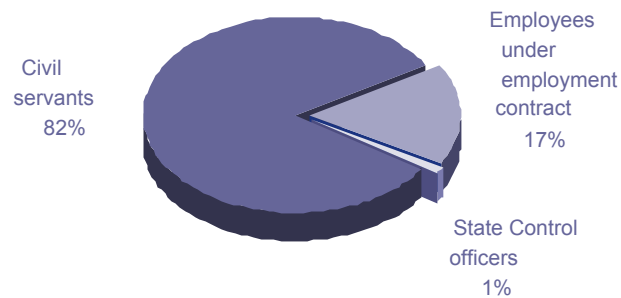
In 2006, a new 12-member Council of the National Audit Office of Lithuania was formed, which includes the management of the National Audit Office of Lithuania and heads of audit departments. The Council may advise the Auditor General on most important strategic and audit-related issues. The Council is an advisory body to the Auditor General which considers the key issues of the NAOL activities and the service in the NAOL.

Figure 4. The structure of the National Audit Office.



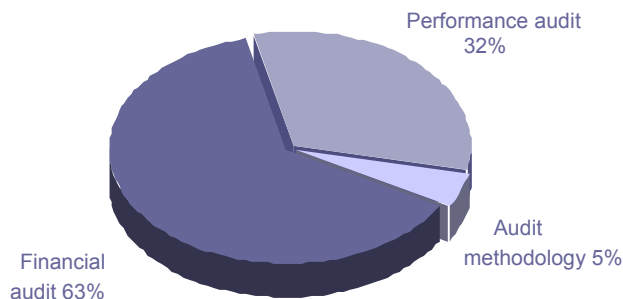
At the end of 2006, the National Audit Office of Lithuania employed 316 persons. During the year, 28 persons were dismissed and 35 persons were recruited. The breakdown of the staff by position is shown in Figure 5.

Figure 5. The staff of the National Audit Office of Lithuania by position.



Auditors account for 78 per cent of all the staff of the National Audit Office. Majority of them (63 per cent) conduct financial (regularity) audit. The breakdown of auditors by activity type is shown in Figure 6.

Figure 6. The breakdown of auditors by activity type.



In 2006, the National Audit Office of Lithuania developed a database regarding Office's employees who have a special knowledge, and analysed alternative certification systems for public auditors, and the staff training system.

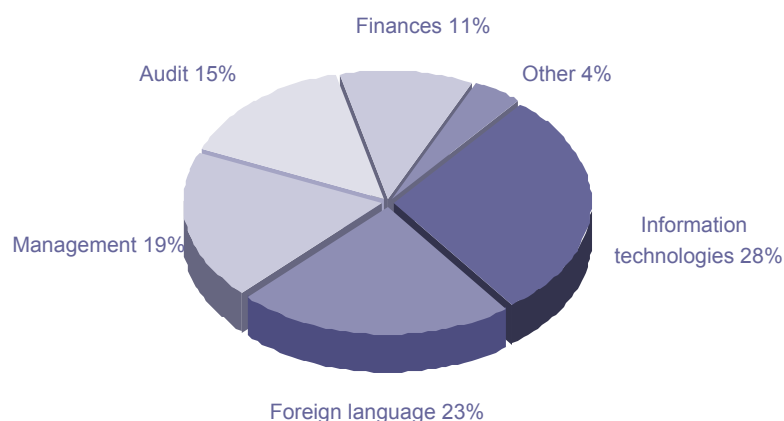
Each reorganization was aimed at disclosing, as much as possible, a true and fair view on the execution of the State Budget to managers of public finances and other assets, and the public, and giving qualified advices on how to manage public resources in more effective and economic way.

## Development of skills

The National Audit Office of Lithuania is particularly concerned with the quality of audit. Only professionals who are knowledgeable and of high qualification may ensure the quality. Therefore the NAOL focuses a lot of attention on training of employees. The National Audit Office, the Ministry of Social Security and Labour, and the European Social Fund Agency have signed a support agreement for the training project “The Qualification Development of Employees of the National Audit Office of Lithuania In Terms of Administrative and Personal Skills” to be implemented in 2006-2008. The total project value amounts to over LTL 1 million. One of the main objectives of the project is to improve administrative and personal skills of employees of the National Audit Office of Lithuania that are necessary for exercising their functions, organising audit process, and ensuring the efficiency of work. In pursuance of this objective, the NAOL hold workshops on management for heads of divisions, audit team leaders, and auditors.

The National Audit Office of Lithuania held over 130 training events for its employees covering various areas of the qualification development. High priority events included upgrading of qualification in information technologies (training courses for ECDL, training for users of the computerised audit documentation system, training in auditing of information technologies), developing foreign language and management skills, and extending and refining knowledge in auditing (Figure 7).

Figure 7. Breakdown of trainings by hours (per cent).



In 2006, expenditure for trainings amounted to around LTL 180.000, and training time totalled over 13.000 hours (one employee was engaged in upgrading of his qualification for around 7 days).

Representatives of the National Audit Office of Lithuania in cooperation with the EUROSAI Training Committee took a part in the following training events: Workshop on Approaches to the Budgetary Reform Audit in the 21<sup>st</sup> Century (Germany’s Federal Court of Audit), Seminar on “Audit of Public Aids and Subsidies” (Supreme Audit Institution of the Czech Republic). The

NAOL employees also attended the conference “Improving Operational Co-operation” hosted by the European Anti-Fraud Office (OLAF) at the European Commission, the international course “Formation and Evaluation of the Public Policy” held at the National School of Administration (Ecole nationale d'administration) in France.

Employees of the National Audit Office of Lithuania upgraded their qualification by participating in international training programmes held in India, France, and Scandinavian countries.

### **Enhancing independence and publicity of public audit**

Nowadays, in countries of longstanding democratic tradition an approach that the national audit institution should be independent is not questioned. This means that it should resist any political or financial influence, freely select audited bodies, and make its findings public.

The Law on the State Control stipulates that the audit institution’s activities should be based on principles of independence, lawfulness, publicity, neutrality, and professionalism. The notion of publicity was already mentioned in the first (after the restoration of the independence) Law on the State Control, but the notion of independence appeared in the Law only at the end of 2002 when the Seimas adopted a revised version of the Law on the State Control.

Over the following four years, the institution’s independence was not sufficient. It was pointed out by the SIGMA experts in their evaluation of our institution.

It is necessary to have a new legislative act which would strengthen and ensure the independence of both the National Audit Office of the Republic of Lithuania and the auditor general in main areas of activity, i.e. financial, performance and EU audits, provide for a longer incumbency, and for a more effective and comprehensive authority over the financial audit of public bodies [...].

*SIGMA Review Report*

With a view to enhancing the institution’s independence and implementing public audit that complies with international standards, and considering recommendations of SIGMA experts, in 2006, the Office prepared the initial draft of a concept regarding the improvement of legal framework of the National Audit Office.

One of expected results of enhancing of independence of audit strategy of the National Audit Office of Lithuania should be an unrestricted dissemination of information for the public.

The National Audit Office of Lithuania is constantly aware of the potential public interest in its work and results; therefore, the annual audit programmes, performance reports, all audit results, including public audit reports, opinions, resolutions of the Auditor General and Deputies Auditor General, and other information on activities of the National Audit Office of Lithuania are published on our website [www.vkontrole.lt](http://www.vkontrole.lt).

In 2006, the National Audit Office of Lithuania published four volumes of *Valstybinis auditas* (Public Audit) where appeared 29 public audit reports, and other information on institution's activities.

With the aim of informing the public about its audits, the NAOL issued 36 press releases. Over 500 information pieces and comments on public audit were published in the national and regional press and on the web, broadcasted on radio and television. The management of the National Audit Office, specialists of the Public Relations Service, and public auditors gave interviews to journalists from television channels, newspapers, and radio stations, commented on audit reports, and participated in radio and television programmes in 190 cases.

The publicity of activities has a positive effect on implementation of recommendations, and on the impact of public audit.

“You become an institution that is much more open to the public. At present the National Audit Office publishes all audit reports, presents audit results to the public and mass media. You increased confidence of the public.”

*Colm Dunne, director of consulting company EPSILON (Ireland), SIGMA expert*

According to a company *Vilmorus* opinion poll commissioned by the daily *Lietuvos Rytas*, public confidence in the National Audit Office of Lithuania increased from 24.6 per cent, at the beginning of 2006, to 28.1 per cent at the end of the same year. A company *Baltijos tyrimai* survey commissioned by the daily *Respublika* reflected that public trust has increased from 31 per cent to 37 per cent over the year.

### **Development and improvement of public audit**

For enhancing the effectiveness and efficiency of public audit, the compliance with international audit standards, the transparency of objectives and scope of the audit, the adjustment of audit objectives considering changes in the public sector, the result-oriented planning while taking into account risk factors, and the quality public audit reports and opinions, the NAOL:

- revised the Financial Audit Manual, set a standard form of public audit opinion, because with entering into force of the amended Law on the State Control the opinion should be delivered not only on the financial accounts and other account data of an audited body, but also on lawfulness of the management, use, and disposal of public funds and property, and stating whether the public resources were properly applied to proper purposes;
- approved a new version of the Performance Audit Manual, refined the structure of performance audit reports;

- computerised audit management and documentation system is being introduced, which ensures a more efficient technique of the audit process and evidence documentation, more efficient processing of opinions and recommendations, and recording of recommendations, working papers are standardized;
- the public audit summary system which ensures the dissemination of information to all audited bodies regarding the best practice and permanent or systematic deficiencies or violations detected during audits is under development;
- approved a procedure for drafting of the National Audit Office's opinions on the Report on the Execution of the State Budget, Report on Public Debt, Report on Loans Granted from Funds Borrowed on Behalf of the State, and Guarantees Granted by the State, and Report on the State-owned Property;
- approved a new procedure for external review conducted by municipal controllers (municipal control services), under which representatives of municipal control services also take part in revision;
- approved recommendations regarding methods of auditing of information systems, according to which auditors assess audited body's information systems, their reliability and efficiency of use;
- developed a project for planning and measuring the scope of public audit, according to which an annual public audit programme shall be drawn up every year. The scope of auditing in the particular year shall be determined considering the general evaluation of risk factors in the public sector. The Public Audit Programme 2007 was drafted and approved according to this programme;

Seeking a mutual understanding, we started developing a system of management relations with audited bodies. It should optimize the work time of the staff of audited bodies, which is necessary for preparation and presentation of required information.

### **Computerised audit management and documentation system**

An extremely rapid development of global information technologies is prompting the National Audit Office of Lithuania to a wider use of information technologies. Computer applications are already used for accounting of audited bodies. Other information necessary for auditing regarding institutions, agencies, land, real estate, persons etc. is collected in the State registers by electronic means. Thus, there are conditions sufficient for using computerised management tools.

With the aim to replace an old and outdated morally and physically information system VAKIS and computerize the process of documentation and organisation of the audit, in 2006, the National Audit Office of Lithuania made another step in enhancing the institutional processes and computerisation with the support of the EU PHARE programme. A new information system was developed in the National Audit Office.

This system covered all areas of activity (except economy and accounting divisions):

- auditing process;
- registration, endorsement and recording of correspondence, accounting of library items, handling the archive of the National Audit Office;
- management of staff information, staff accounting.

New computerised system covers the whole auditing process from issuing the assignment to preparing the draft of an audit report.

In 2006, we conducted pilot audits using the new system: seven financial (regularity) audits, five performance audits, and one information system audit. The documentation of a review of audits conducted by municipal controllers (control services) was handled using this system.

In 2006, we conducted an analysis of the information technology system of the National Audit Office, revised and refined the five-year information technology strategy, and developed a plan for implementation measures of the Strategy for 2007.

## 2. PUBLIC AUDIT – ASSISTING THE DEVELOPMENT OF THE PUBLIC SECTOR

The National Audit Office shall supervise the lawfulness of the management and use of state property and the execution of the State Budget. The Auditor General shall submit to the Seimas an opinion on the report on the annual execution of the budget.

*Constitution of the Republic of Lithuania*

### 2.1. AUDIT OF PUBLIC ACCOUNTS AND BUDGET REVENUE

In pursuing its strategic goal to enhance the parliamentary control performed by the Seimas in fields of public accounts and Budget revenue, the National Audit Office of Lithuania achieved the planned results (Table 1).

Table 1. Comparison of results with criteria set out in the Strategic Action Plan for the audit of public accounts and Budget revenue.

Evaluation criteria	Planned for 2006	Achieved in 2006
<i>For impact:</i> 1. Enhanced parliamentary control of executive authorities	Yes	Yes
<i>For result:</i> 1. Percentage of implemented, fully or partially, recommendations regarding the revenue audit (per cent)	87	96
<i>For product:</i>		
1. Number per auditor of mandatory opinions delivered to the Seimas (including the report of the National Audit Office) (items)	1	1
2. Number per auditor of implemented revenue audit projects (items)	1	1
3. Number per auditor of implemented financial audit projects regarding Budget revenue reports (forms 1-VP) (items)	1	1

### Opinions on public accounts and on the draft State Budget for the next year

The objective of the audit of public accounts is to assess whether the Report on the Execution of the State Budget, Reports on Public Debt, on Loans Granted from Funds Borrowed on Behalf of the State, and Guarantees Granted by the State, and Report on the State-owned Property (hereinafter referred to as public accounts) in all material respects were prepared in compliance with mandatory requirements, whether there are material misstatements, and to give an independent opinion on these reports.

The National Audit Office's opinions delivered to the Seimas provide information necessary for approving public reports, and its opinions delivered to the Seimas Budget and Finance Committee



on the draft Budget project present an opinion and recommendations regarding prospective revenue and appropriations of the State Budget, and improvement of the planning of the State Budget.

The National Audit Office of Lithuania delivered to the Seimas three mandatory opinions on public reports in 2005:

- on the Report on the Execution of the State Budget;
- on the Report on Public Debt, Report on Loans Granted from Funds Borrowed on Behalf of the State, and Guarantees Granted by the State;
- on the Report on the State-owned Property<sup>1</sup>.

The NAOL also delivered an opinion of the draft State Budget 2007 to the Budget and Finance Committee.

### **Results of recommendations and suggestions delivered to the Seimas**

Considering the recommendations delivered by the National Audit Office of Lithuania the Seimas adopted a minutes resolution and suggested the Government:

- to improve procedures of public procurement;
- to amend legislative acts regarding the assessment of needs for appropriations;
- to revise and amend legislative acts regarding the activities of the research and higher education institutions;
- when drafting the State Budget, to take into consideration the need for money on the State Treasury Account necessary for settlements with contractors of special programmes;
- to enhance the responsibility of the heads of institutions for the control of finances when managing public property and spending public money;
- to set out the requirement for municipalities to report to institutions that supervise the performance of respective functions on performing of these public functions;
- to give more attention to the development and implementation of programmes, taking into account the planned and achieved results, and the impact of these results on the country's economy, business, and people.

Considering the opinion of the National Audit Office of Lithuania On the Report on Public Debt of the Republic of Lithuania in 2005:

- The Seimas Budget and Finance Committee suggested the Government to solve conflicts between the Law on the Budget Structure, in accordance with which Budget appropriation

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<sup>1</sup> Opinion on the Report on the State-owned Property was not considered in the Seimas in 2005.

managers and their subordinate budgetary entities are not allowed to borrow and undertake debt liabilities on their own behalf, and other legislative acts that provide for undertaking of debt liabilities.

- The Ministry of Finance amended the Rules of Accounting of Budget Institutions by a provision that assets received under the leasing (financial lease) contract should be shown in the account of fixed assets; it also provided for a special account for recording of settlements with the lessor.

After discussing the opinion of the National Audit Office, the Budget and Finance Committee suggested the Government to improve a draft of this law.

### **Audit of revenue of the State Budget**

With the aim of enhancing the parliamentary control of the Budget execution in the field of collection of revenue of the State Budget, the National Audit Office of Lithuania conducted two audits:

- **Co-operation of the State Tax Inspectorate under the Ministry of Finance (hereinafter referred to as STI) with tax administrators of the Member States of the European Union in exchange of information on value added tax.** The aim of this audit is to assess whether the co-operation of the STI with institutions of other Member States of the European Union in the field of VAT was efficient and effective, and how provisions of the European Council Regulation 1798/2003/EC were implemented. The audit was started in order to implement recommendations of VAT Working Group of European Supreme Audit Institutions to develop the international co-operation between the European Supreme Audit Institutions in conducting audit in areas relating to the exchange of the information on taxes.

The auditors found that the STI's attention to the synthesis, analysis, and assessment of information was insufficient. It did not have a precise regulation as to which information is material, and when it should be stored in databases, and failed to ensure the dissemination of the received information to regional tax inspectorates and divisions.

Taking into account the recommendations of the National Audit Office, the STI applied a more comprehensive regulation of functions and responsibility of employees responsible for exchange of information with institutions of other Member States of the European Union. In order to ensure a uniform accounting of information exchange files, refined an application for accounting of international exchange of information files, disseminated best practice when exchanging information on taxes.

- **Public audit of the application of reduced rates of value added tax** included the assessment of effectiveness of reduced rates of VAT applied to goods and services, and the monitoring of its impact.

Auditors found that there was no provision in legislative acts of Lithuania specifying an institution responsible for monitoring of the impact and assessing of effectiveness of reduced rates of VAT. In opinion of the National Audit Office, there is no sense to apply reduced rates of VAT, because findings show that this did not or only slightly affected prices, as well as offer, demand, and employment. The biggest benefit from the reduced rates of VAT was gained not by consumers of goods (services), but producers of goods and providers of services.

Considering recommendations of the National Audit Office, the Ministry of Finance planned to develop methodology of assessment and monitoring of the impact of the reduced rates, and present an opinion on the consistency of the reduced rates to the Government.

The Government assigned the Ministry of Finance to provide an opinion and proposals on implementation of recommendations of the National Audit Office.

## 2.2. AUDIT OF FINANCIAL ASSISTANCE OF THE EUROPEAN UNION

In pursuing its strategic goal to promote transparent and effective management and use of the financial assistance of the European Union (hereinafter referred to as EU) and securing the EU interests, the National Audit Office of Lithuania achieved the planned results (Table 2).

Table 2. Comparison of the achieved results with evaluation criteria in the EU funds audit area set out in the Strategic Action Plan.

<b>Evaluation criteria</b>	<b>Planned for 2006</b>	<b>Achieved in 2006</b>
<i>For result:</i>		
1. Percentage of implemented, fully or partially, recommendations (per cent)	86	86
<i>For product:</i>		
1. Number of implemented EU financial assistance public audit projects per auditor (items)	0.33	0.37

## **Mandatory public audits of financial assistance of the European Union**

The aim of public audits of the EU financial assistance is to conduct the audit of reports on expenditure of EU financial assistance referred to in EU regulations and international conventions under the EU regulations to provide the European Commission with the legal basis for granting a financial assistance to the Republic of Lithuania.

In executing its functions, The National Audit Office of Lithuania conducted eight public audits:

### **Audits of the management and control of EU financial assistance**

- Evaluation of the system for management and control of the financial assistance of the European Community Initiative EQUAL
- Evaluation of the system for administration of violations in use of funding within the European Community Initiative EQUAL
- Evaluation of the system for administration of violations in use of funding within the EU Structural Funds developed in the Republic of Lithuania
- Audit of the computerised information system for management and control of the EU Structural Funds (SFMIS), and the general control of information system of the Cohesion Fund (conducted as audit of information systems)
- Evaluation of the system for administration of violations in use of funding within the Cohesion Fund developed in the Republic of Lithuania

### **Certification audits of expenditure accounts of the EU financial assistance**

- Winding-up audit of the Cohesion Fund (ISPA) Project “Upgrading of IXB transport corridor in 2003-2004
- Certification audit of the European Agricultural Guidance and Guarantee Fund (EAGGF) Guarantee Section Expenditure Statements for 2005
- Certification audit of the Special Accession Programme for Agriculture and Rural Development (SAPARD) Expenditure Statements for 2005

System audits of the Structural funds were an integral part of the winding-up audit of the Structural Funds Programme for 2004-2006. Based on findings of these audits, the European Commission evaluates the efficiency of the system for management and control of Structural Funds assistance. In 2009-2010, the European Commission will decide on the eligibility of costs and the transfer of remaining funds.

Considering the opinion and the report of winding-up audit of the Cohesion Fund (ISPA) Project, the European Commission decided positively on the transfer of remaining funds for the project.

Considering the findings of the certification audits of reports on the European Agricultural Guidance and Guarantee Fund (EAGGF) Guarantee Section Expenditure Statements for 2005, and SAPARD Expenditure Statements for 2005, the European Commission decided on approving of eligibility of annual expenditure.

### **Performance audits of the European Union financial assistance**

Being aware of the particular importance of the EU financial assistance to economical and social development of Lithuania, the National Audit Office of Lithuania carried out four performance audits related to the EU financial assistance and the integration of Lithuania into the EU.

**Special national programme for agriculture and rural development for the implementation of SAPARD in the period 2000-2006.** Upon evaluating the implementation of SAPARD in the period 2000-2006, the National Audit Office of Lithuania found that the economic situation of a number of entities which were granted the SAPARD assistance has deteriorated, and the operation became unprofitable in some cases. Although one of the tasks of the National Paying Agency is to secure the control of the use of assistance from the State Budget and the EU Programme for Agriculture and Rural Development, it did not analyse operation and financial statements submitted by entities that received this assistance and failed to control how they met their obligations after receiving investments.

The NAOL recommended the National Paying Agency to employ similar control measures in administration of other EU assistance programmes during and after the implementation. The Agency implemented the recommendations in 2006.

**Projects of the Schengen Facility Programme.** During the audit, auditors found that measures for the security of external EU frontier were implemented rather slowly. For this work, the EU allocated to Lithuania almost LTL 618 million to be used before the end of 2007. Monies are intended for strengthening of the protection of external borders of Lithuania, acquiring of necessary equipment, vehicles, setting-up of a new mobile digital radio system, and a number of other actions. However, only three per cent of the allocated funds were used by the middle of 2006. The auditors stated that there is a risk of failing to timely complete a planned work because the total value of contracts to be concluded makes more than two thirds of all allocated funds. Moreover, a part of ongoing work is behind the set schedule. Auditors issued an opinion that the Ministry of the Interior and the Schengen Facility Supervisory Committee did not adequately focus on the supervision of project development and implementation, and failed to control and supervise in sufficiently effective way the actions of both the Implementing Agency and beneficiaries.

The National Audit Office of Lithuania made recommendations to eliminate the identified shortcomings and to plan additional measures for speeding up the implementation of projects.

Auditors noted that, at the initiative of the Ministry of the Interior, the Government has taken additional measures for speeding up the implementation of projects. Funds to pay for work were issued from the State Budget without waiting for a decision of the European Commission, and are to be refunded from the EU funds.

**Establishment of the Protected Areas Network NATURA 2000 in Lithuania.** The audit of the establishment of the Protected Areas Network NATURA 2000 in Lithuania was conducted under an international project coordinated by the European Court of Auditors and the SAI of France. The audit was carried out in line with an agreed common audit programme and the evaluation criteria.

Auditors found that when implementing environmental projects relating to the establishment of the Network NATURA 2000 in Lithuania, the Ministry of Environment, the State Service for Protected Areas, and the Environmental Projects Management Agency failed in some cases to ensure the efficient organisation and timely completion. In Lithuania, protected areas NATURA 2000 may be established in either State-owned territories or private land. In order to protect threatened species of animals and birds, and their natural habitat, the economic activity may be limited in such territories. Therefore, a collision between nature protection and proprietor interests may arise in the future because of these circumstances. So far, the Government did not approve the procedure for payment of compensations to persons engaged in agricultural activity, so there is rather a slight probability of starting compensation payment in 2007.

In their report, auditors made recommendations to the Ministry of Environment and institutions under the Ministry to take measures for a more efficient management of environmental projects. They also recommended to consider possibilities and develop measures ensuring that land owners, on the territory of whom an area of NATURA 2000 is planned, were informed on environmental measures to be implemented and restrictions of the use of land and forest. The auditors recommended to the State Service for Protected Areas to ensure the protection of species and habitats in established areas of NATURA 2000 and in areas that meet selection criteria of territories important for the protection of habitats in line with the Habitats Directive and Wild Birds Directive. With a view to timely and efficient implementation of projects, the auditors offered advice to project supervisory committees to enhance the control of project implementation.

Audit findings were presented at the meeting of the EUROSAI Environmental Audit Working Group held in Luxemburg in November 2006.

**Management of municipal waste.** The development of waste management system in compliance with the EU requirements is a very important and complicated area of the integration of Lithuania in the European Union.

During the audit, we found that the disposing of waste in a landfill, a waste disposal method of lowest priority is the most popular in Lithuania. The European Commission directives specify July 2009 as a deadline of prohibition to dispose waste in landfills that do not fulfil the EU requirements.

For the optimisation of waste management, it is planned to use a sum of LTL 446 million. EU grants two thirds of this amount. But the National Audit Office of Lithuania found that the process of closing or renovation of landfill that do not fulfil the requirements is in delay as it is the establishment of new ones. During the audit, a number of project implementation contracts were signed, value of which makes less than a third of the allocated financing but in fact less than a tenth of the financing was used. The main causes: long-lasting decision-taking procedures, poor quality of projects and tender documentation, insufficiently clear allocation of functions, and lack of constructive co-operation between the Ministry of Environment, the Environmental Projects Management Agency, county governor's administrations, projects supervisory committees, municipalities, and regional waste management centre.

The National Audit Office of Lithuania recommended to the Government to develop measures for speeding-up of the implementation of projects, and clearly define the remit, functions, and responsibility of counties and municipalities. We suggested the Ministry of Environment to take measures for defining coherent principles of interaction and enhancing the control of bodies that participate in project implementation. We offered advice to the Environmental Projects Management Agency and regional waste management centres to analyse concluded contracts and impose more severe sanctions for non-performance of work according to timetable set in contracts. County governor administrations, together with regional waste management centres, should draw up the list of necessary agreements between municipalities.

In addition to mandatory and performance audits of the EU financial assistance, public auditors took part in two audit missions of the European Court of Auditors and in two audit missions of the European Commission in Lithuania regarding the expenditure of EAGGF Guarantee Section, and in five audit missions of the European Commission in Lithuania regarding EU Structural Funds and the Cohesion Fund.

### 2.3. FINANCIAL AUDIT

In pursuing its strategic goal to promote the introduction of advanced systems for management and control of finances in the public sector, the National Audit Office of Lithuania achieved the planned results (Table 3):

Table 3. Comparison of the achieved results with evaluation criteria set out in the Strategic Action Plan.

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<b>Evaluation criteria</b>	<b>Planned for 2006</b>	<b>Achieved in 2006</b>
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*For result:*

1. Unqualified and qualified opinions within a specific category of audited bodies (not less than x per cent)	90	97
2. Percentage of fully or partially implemented recommendations (per cent)	87	98

*For product:*

1. Ratio of audited funds to appropriations of the State Budget (per cent)	76	82.3
2. Ratio of appropriations of the State Budget (LTL) to expenditure (LTL) for a task (planned long-term increase in efficiency) (items)	1.349.000	1.356.000

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The aim of public financial (regularity) audit is to assess the internal control of an audited body, including the finance management, the lawfulness of management, use, and disposal of the State or municipal assets of the audited body, and deliver an independent opinion as to whether financial and other accounts show a true and fair view.

Being aware of the importance to ensure the careful use of public assets, the National Audit Office of Lithuania does a work during the public financial audit of much wider range than traditionally auditing accounts for accuracy and regularity.

In 2006, for the first time public audit opinions included not only an opinion as to whether financial and other accounts of an audited body represent a true and fair view, but also highlighted whether the possession, use, and disposal of public funds and assets is lawful, and whether these resources were used for purposes provided for by the law.

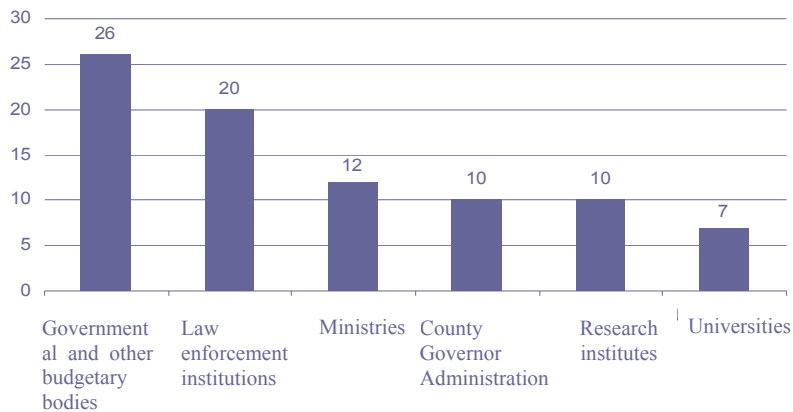
Enhancing of internal control is one of the means to improve the transparency and accounting of finance management. An efficient internal control is a way to ensure ordered, ethical, economical, and effective activities; responsibility of persons employed at institutions for their decisions and actions regarding the management and use of public assets; compliance with laws and other legislative acts; protection of funds and tangible assets from loss, mismanagement, errors, and fraud.

The lawfulness and efficiency of spending of appropriations from the State Budget allocated to a public body or agency may be ensured when internal control procedures allow identifying and timely correcting errors. When conducting financial (regularity) audits, the National Audit Office of Lithuania evaluated internal control procedures of an audited body in terms of their adequacy and effectiveness.

The National Audit Office of Lithuania conducted financial (regularity) audits of 85 public bodies, heads of which were managers of the State Budget appropriations in 2005 (Table 4.).



Table 4. Number of audited public bodies.



The NAOL also conducted three audits of limited scope (State Patient Fund, Office of the Seimas, and public enterprise *Valstybės Žinios*), which were finished after the production of public audit report, therefore, no opinions were delivered.

Table 5. Opinions in financial (regularity) audit reports provided to appropriation managers

Opinion type	2005		2006 on 2005			
	on 2004		fair and true view		Lawfulness of the	
	fair and true view		of financial		management, use, and	
	units	%	units	%	units	%
Clear	38	38	60	71	41	48
Qualified	58	58	24	28	43	51
Adverse	4	4	-	-	-	-
Disclaimer of opinion	-	-	1	1	1	1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>85</b>	<b>100</b>	<b>85</b>	<b>100</b>

It should be noted that the total sum of audited appropriations increased from LTL 10.5 billion, in 2004, to LTL 12.2 billion, in 2005, although the total number of audited bodies decreased in comparison to the last year.

It is important to point out that the number of clear opinions increased almost by a half (from 38 per cent, in 2005, to 71 per cent, in 2006), as compared to 2004 when auditors did not issue material observations on financial statements, accounting system, and violations of legislative acts, which may affect the opinion. For example, in 2003, auditors found violations of legislative acts and material errors in Vilnius University, and, therefore, issued a negative opinion in the audit report. In 2004 and 2005, audits conducted in this institution by and recommendations of the National Audit

Office of Lithuania produced a positive impact, and, therefore, a clear opinion was issued in audit report on financial statements 2005. Similar results were achieved in the Department of Heritage under the Ministry of Culture, and the Department of Physical Education and Sports under the Government of the Republic of Lithuania. In 2003, it was found that in these institutions the accounting was disordered, with material errors and violations of legislative acts. Auditors could not collect sufficient, reliable, and relevant evidence to substantiate that the financial statements were true and fair, and, therefore, no opinion was issued. The situation has improved over the next two years: auditors made certain observations and gave qualified opinions on accounts for 2005.

As to the legality of management, use, and disposal of public funds and assets, only 48 per cent of audited bodies were issued unqualified opinions. It is evident that the National Audit Office of Lithuania has a lot to do in helping appropriation managers to enhance the internal control which could ensure the compliance with provisions of laws and legislative acts in management and use of public funds and assets.

The National Audit Office of Lithuania also conducts audit of the use of funds allocated from the State Budget to municipal budgets. We conducted financial (regularity) audits of 9 municipalities and assessed how they used target State Budget subsidies allocated to performing of public functions (delegated to municipalities) and for financing of the pupil's basket.

Table 6. Opinions issued in reports on financial (regularity) audit of municipalities.

Opinion type	On 2004		On 2005			
	Fair and true view of financial statements		Fair and true view of financial statements		Lawfulness of the management, use, and disposal of public funds and assets	
	units	%	units	%	units	%
Clear	1	8	2	22	2	22
Qualified	6	50	5	56	5	56
Adverse	1	8	-	-	1	11
Disclaimer of opinion	4	34	2	22	1	11
<b>Total</b>	<b>12</b>	<b>100</b>	<b>9</b>	<b>100</b>	<b>9</b>	<b>100</b>

It is important to point out that only in one fifth (22 per cent) of the audited municipalities auditors did not find material misstatements relating to the compliance with provisions of legislative acts, and the fair and true view of financial statements in terms of use of funds of target subsidies, but this indicator is three times better as compared to that of the previous year. Audits conducted by the National Audit Office of Lithuania in municipalities produced positive results only over three years in succession. For example, in 2004, no opinion was issued to Vilnius City and Šiauliai City Municipalities because of material errors in accounting funds of special target subsidies from the State Budget, but a qualified opinion was issued to both municipalities in 2005.

## **Examples of results and impact of financial audit**

### **The National Audit Office of Lithuania prevents misuse and financial crimes:**

- The Office forwarded four audit files to the Prosecutor General's Office. With regard to one of them, the Vilnius City District Prosecutor's Office instituted a pre-trial investigation.
- The Office forwarded, within its competence, to the State Tax Inspectorate two audit files regarding the legality of use of an ownerless property, and the accounting of financial assistance.
- After finding out regular violations of the work time regulation set forth in legislative acts, the Office forwarded audit files to the State Labour Inspectorate.

### **The National Audit Office of Lithuania recommended to pay back funds to the State Budget.**

#### **Following financial (regularity) audits and in response to recommendations made by the National Audit Office, the sum of LTL 3.045.800 was paid back to the State Budget:**

- Public bodies paid back to the State Budget LTL 1.264.500, an amount of the special programme revenue, which was invalidly shown in accounts, and LTL 59.900, an amount of unfoundedly paid wages and salaries.
- Municipalities paid back to the State Budget LTL 1.074.500, an amount of the special target subsidies, which was applied not for the set purposes or used in violation of law.
- After auditors identified cases of applying of special target subsidies not for the set purposes, and after litigations, the sum of LTL 646.900 was paid back the State Budget.

#### **Legislative acts were amended in response to recommendations of the National Audit Office:**

- After auditors identified violations in exchange of public assets and in transfer of public assets to partners under the joint venture agreements, in 2006, an amendment to the Law on Management, Use, and Disposal of the Public and Municipal Property, which prohibits exchange of property, an amendment that prohibits the transfer of State-owned property on the basis of joint venture.
  - The National Audit Office of Lithuania pointed out that the remuneration rules approved by the senates of higher schools set out that the amount of extra pays, fringe benefits, and premiums is not limited. The NAOL suggested an amendment to the Law of Higher Education, which stipulates that the rules for setting and paying of remuneration, extra pays, fringe benefits, premiums, and one-off-payments for employees, lecturers and other members of staff shall set the Government. For solving this problem, a working group including specialists of the Ministry of Finance and Ministry of Education and Science was formed.
- The National Audit Office of Lithuania recommended amending the Law of Higher Education and, consequently, statutes of the higher schools by providing for a duty of the rector of a higher

school to approve the income-expenditure estimates and reports of their implementation. At present, rectors already approve those documents.

## 2.4. PERFORMANCE AUDIT

In pursuing its strategic goal to promote the result-oriented management in public administration bodies, the National Audit Office of Lithuania achieved the planned results (Table 7).

Table 7. Comparison of the achieved results with evaluation criteria for performance audit area set out in the Strategic Action Plan.

<b>Evaluation criteria</b>	<b>Planned for 2006</b>	<b>Achieved in 2006</b>
<i>For result:</i>		
1. Percentage of implemented, fully or partially, recommendations (per cent)	81	84
<i>For product:</i>		
1. Number per auditor of implemented performance audit projects (items)	0.64	0.67

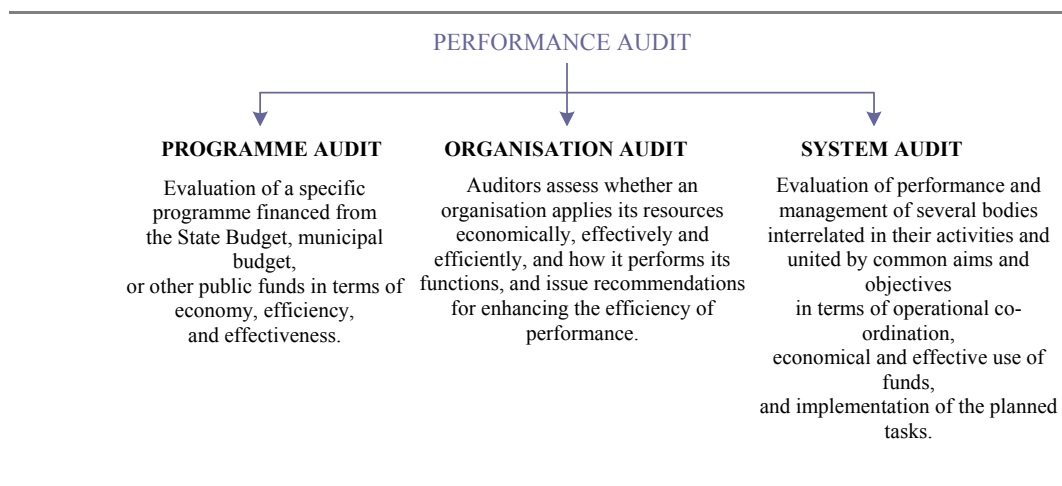
The aim of performance audit is to assess the public and internal administration in terms of economy, efficiency, and effectiveness, and to highlight possibilities for improving the performance.

In private sector, the market environment conditions the efficiency of performance of enterprises, while in public sector this regulation mechanism is in part replaced by the audit. A properly conducted performance audit allows identifying performance problems before a possible negative effect of irregularities on performance results.

The annual public audit programme for 2006 planned 41 performance audits, of which 30 audits were conducted<sup>2</sup>, 11 audits are in progress and will be conducted in 2007.

When conducting performance audit, auditors may evaluate one or several institutions, specific areas of the performance, programmes financed from the State Budget, municipal budget or other public funds. By audited body, there are three application areas of performance audit (Figure 8).

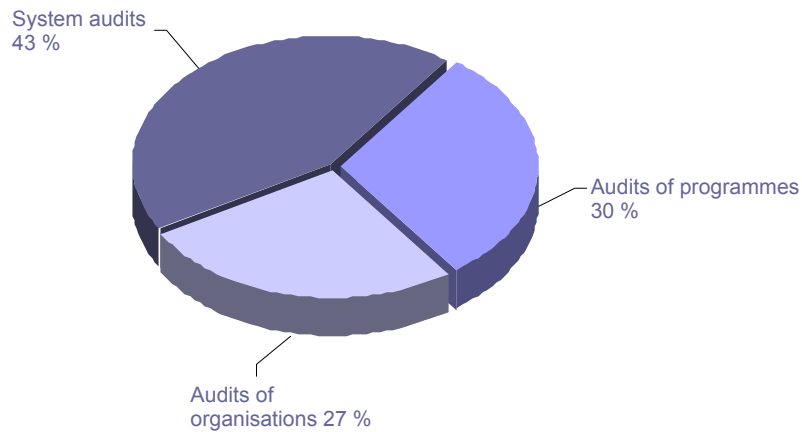
Figure 8. Application areas of performance audit by audited body.



<sup>2</sup> One audit was finished when after a preliminary study auditors decided against conducting a main performance audit.

The evaluation of public bodies interrelated in their activities and united by common aims (system audit) is a priority area of performance audit. During performance audit, auditors make recommendations regarding the system. In 2006, system audits dominated in number (Figure 9).

Figure 9. Breakdown of performance audits by topic.



Performance audits conducted by the National Audit Office of Lithuania in 2006 covered almost all the areas of public administration, but the focus was on the State economy and health care (Table 8).

Table 8. Breakdown of performance audits by areas

<b>Areas of public economic activity</b>	<b>Total</b>
State economy	5
Health care and insurance	4
Law enforcement and law and order	3
Transport and communication	3
Environment protection	2
Finance management	2
Information systems	2
Culture and sport	2
Social security and labour	2
Education and science	2
Use and disposal of the State-owned property	2
Agriculture	1
Internal affairs	4
<b>Total:</b>	<b>30</b>

By the procedure set forth in the Law on the State Control<sup>3</sup>, the Seimas may assign, to the National Audit Office of Lithuania to conduct a public audit within its competence. Assigned<sup>4</sup> by the Seimas in 2006, the NAOL has conducted a performance audit in a joint-stock company of public utilities of the Office of the Government of the Republic of Lithuania.

### **Examples of results and impact of performance audits**

**Specialist training programme** It was planned to give a professional qualification to 15,000-16,000 schoolchildren annually over the last five years. Vocational schools, however, did not provide a specialised training to a planned number of students. Every school year every seventh student drops out because of poor advancement, disappointment in speciality, employment before the finishing the school, emigration, family circumstances, compulsory conscription for the army, and other reasons. Schools often fail to form groups of specialities that are marketable but unpopular among the students. The implementation of the vocational guidance was unsuccessful and a number of planned actions were rescheduled by 2 or 3 years. Up to now a common system of the quality of vocational education is not developed.

Auditors in their public audit report issued recommendations regarding possibilities to adopt necessary resolutions on the conscription of students of leaving courses after finishing vocational

<sup>3</sup> Paragraph 4 of Article 14 of the Law on the State Control of the Republic of Lithuania.

<sup>4</sup> Seimas Resolution No X-514, of 14 March 2006 "On Forming a Provisional Commission for the Investigation of Circumstances of Construction in Turniškės, and operation of the Joint-stock Company of Public Utilities of the Office of the Government of the Republic of Lithuania".

education and obtaining a professional qualification, on the quality evaluation system of vocational education, on the renovation of training centres, and the use of common training centres.

In response to recommendations issued by the National Audit Office, the Law on Military Service was amended, the Plan for 2006-2008 for the development of the professional education standards was drawn up. It is planned to draw up a plan of measures for the implementation of the revised Law on Vocational Education.

**Organisation of free catering of schoolchildren.** The State Budget allots around the amount of LTL 60 million every year for the free catering of children from poor and social risk families. In the opinion of auditors, the Law on Social Support for Schoolchildren that entered into force at the beginning of 2006, and legislative acts will not eliminate certain problems of the free catering of schoolchildren. Auditors found out that municipalities, as up till now, will have the possibility in some cases to grant free catering to schoolchildren by different criteria, and apply a different daily quota of expenses for free catering of one student. The regulation of procedure for use of funds allocated to catering in day-time summer recreation camps organised by schools is rather confusing. The National Audit Office of Lithuania recommended to the Ministry of Social Security and Labour to initiate amendments to legislative acts, which could provide for a better organisation of the free catering of schoolchildren. The NAOL suggested to refine methodologies of planning and allocation of necessary funds, draft a procedure for the use of funds allocated to catering in day-time summer recreation camps organised by schools.

**Implementation of the joint-stock company Alytaus Tekstilė rehabilitation plan.** After adopting and putting into effect the plan for rehabilitation of the joint-stock company Alytaus Tekstilė, the State granted the company a financial assistance amounting to LTL 27.7 million in 2004. This enabled the company to continue its operation. The company was released from refunding a loan given on behalf of the State, from paying fines and interests; given a new tax payment schedule but received a financial assistance in money LTL 5.0 million.

In 2004, the company spent for investments LTL 2.0 million of the financial assistance supplied by the State. Due to this, the company improved the quality of its products, but expected results of the financial assistance were not achieved: volume of sales of products did not increase, cost did not decrease, and performance indicators did not essentially improve. In 2004 and 2005, the company suffered a net loss of LTL 15.7 million and LTL 16.0 million, respectively.

Positive changes were observed in the company's operation over 9 months in 2006: although the profitability indicators were still negative, but much better in comparison with the years 2003-2005. Over 9 months of 2006, the company incurred the unaudited loss of LTL 1.0 million, whereas in the last year over the same period the loss amounted to LTL 6.5 million; nevertheless, the financial



situation of the company remained very complicated, and the company has no possibility to fulfil its financial liabilities.

Auditors recommended to the Ministry of Economy to analyse possibilities of continuing the operation of joint-stock company Alytaus Tekstilė, and consider the question as to its further operation.

**Implementation of the reform of the railway transport sector.** As of 2000, joint-stock company Lietuvos Geležinkeliai operation has been stable and profitable; involved in the freight forwarder business, the company has ensured financial stability and development opportunities. Within the framework of implementation of provisions of the Law on Reform of Railway Transport Sector relating to the second stage, i.e. separating (establishing) a public enterprise for managing public infrastructure, it is planned to develop a model of organisational structure of the separated railway system: railway infrastructure and its management is separated from freight and passenger services. But there is no calculation and economic substantiation as to how much the establishment and operation of the public enterprise for management of public railway infrastructure will cost to the State, therefore there is a risk that the establishment of this enterprise may have a negative impact on the Lithuanian economy and the railway transport sector.

With a view to improving the progress of implementation of the railway transport sector reform, auditors recommended to the Government to initiate a discussion on the second stage of the reform set out in the Law on Reform of Railway Transport Sector in order to find out whether the establishment of the public enterprise for managing of the public railway infrastructure is necessary and reasonable. The auditors suggested that it is necessary to carry out the economic substantiation of the public enterprise for managing of the public railway infrastructure before adopting decision on implementation of the second stage of the railway transport sector. In addition, the auditors recommended to the Government to assess the state of the passenger rail transport, adopt a Government decision on perspectives of the passenger rail transport.

“Auditors of the National Audit Office examined this problem of great importance from the perspective of public interest, because the rail transport is an important part of the national economy and social infrastructure, therefore, when carrying out the railway reform and implementing EU directives, it is necessary to secure also the sector’s financial stability, effective operation in market environment, and proper passenger and freight transport service.”

*Albertas Šimėnas, Deputy General Director of joint-stock company Lietuvos Geležinkeliai*

**Compulsory insurance of civil liability for the damage caused to patients.** The Law on the Rights of Patients and the Compensation for Damage Caused to Patient’s Health, in force from 1996 to 2005, stipulated that each Lithuanian healthcare institution must hold civil liability

insurance for damage caused to patients, but over this period this law was not put into practice, although, pursuant to its provisions, healthcare institutions that did not hold civil liability insurance for damage caused to patients had no right to provide healthcare services. In 2005, a revised version of this law came into force, but a year later the insurance system still was not properly implemented: more than one quarter of licensed healthcare institutions surveyed during the audit held no compulsory civil liability insurance. Of the uninsured, private institutions accounted for a majority. A poor functioning of the system of compulsory insurance of civil liability for damage caused to patients was primarily determined by an insufficient number of insurers in this market as the current legislative acts do not provide conditions for defining the actuarial risk (the law sets forth the level-coverage insurance, but does not set the maximum number of insurance events). The auditors recommended drawing up amendments to the Law on the Rights of Patients and the Compensation for Damage Caused to Patient's Health and other legislative acts.

The Committee on Audit and the Committee on Health Affairs of the Seimas discussed our report and approved recommendations laid down in the report. A part of these recommendations are being discussed in the working group for amending of the Law on the Rights of Patients and the Compensation for Damage Caused to Patient's Health formed by a resolution of the Board of the Seimas.

## 2.5. EVALUATION OF INFORMATION SYSTEMS

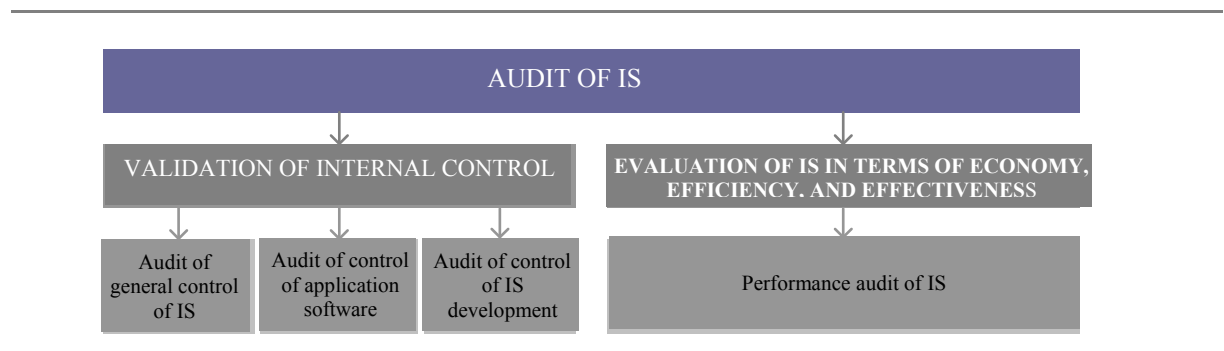
Information technologies are integrated in the operation process of institutions and enterprises; therefore, their performance is largely dependent on the successful use and application of IT. The development of a reliable information system becomes one of strategic goals not only for institutions and enterprises, but also for the State.

With increasing importance of information systems on the State level, the evaluation of information systems acquires a new meaning: the evaluation of information systems evolves into a higher level, namely the audit of information systems. With the aim of a more efficient use of information systems of public institutions, the National Audit Office of Lithuania has radically enhanced this new audit function in 2006. General methods of control of information systems were developed in order to help solving problems of management and security of information systems. The audit of information systems aims mostly to evaluate this control.

The content of the audit of information systems may be broken down into two thematic areas (Figure 10):

- validation of internal control;
- evaluation of an information system in terms of economy, efficiency, and effectiveness.

Figure 10. Application of audit of information systems by areas.



In line with these principles, the National Audit Office of Lithuania conducted eight validations of general control of information systems (2 out of which are related with EU financial assistance audits) and two separate audits of information systems.

The majority of recommendations relating to the evaluation of information systems shall be included in financial (regularity) audit reports for 2006. These recommendations were made with the aim to enhance the internal control of public institutions: assure the security of information property and data integrity, and a more effective accomplishment of organisation's objectives and a more efficient use of resources.

We conducted the following specific performance audits of information systems:

- **Audit of information systems for management of Structural Funds** in the Ministry of Finance, in the course of which, in addition to the validation of general control of an information system, we carried out an evaluation of development of both the application software and the information system (audit of management and control of EU financial assistance).
- **General control of public sector information systems. National and institutional level.** In the Ministry of the Interior and the Information Society Development Committee under the Government of the Republic of Lithuania. The audit report has been discussed in the Committee of the Development of Information Society and presented to the Committee on Audit of the Seimas of the Republic of Lithuania.

### **Examples of audit results and impact**

**The Ministry of the Interior and the Information Society Development Committee.** Upon discussing the public audit report on General control of public sector information systems. National and institutional level, the Committee of the Development of Information Society of the Seimas of the Republic of Lithuania approved it and decided to propose to the Government of the Republic of Lithuania to implement the following recommendations:

- To the Ministry of the Interior and the Information Society Development Committee, relating to the classification of strategic goals of information systems, data, and information systems, and management of security of information systems.
- To the Ministry of the Interior the auditors recommended supplementing requirements for the content of public servants training programmes with a provision relating to obtaining the basics of the strategic management of information technologies; to the Information Society Development Committee, relating to the management of investment projects of in information technologies, and exploitation of information systems.

**State Tax Inspectorate.** In 2006, the STI implemented all recommendations made during the evaluation of information systems in 2005, which improved the STI's strategic management of information technologies. For example:

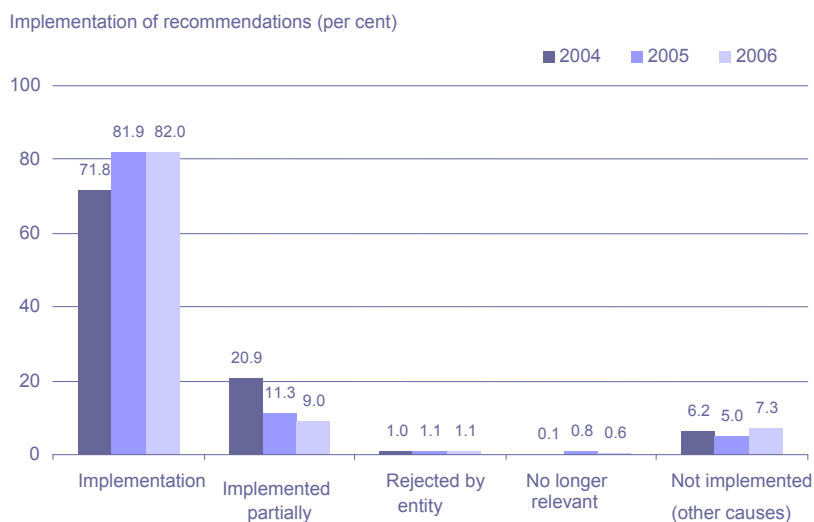
- The Information Society Development Committee of STI was established in order to harmonise the operation of information systems and develop them in centralised and wise way;
- The documentation of information systems policy was improved and administrators of these systems were appointed in order to clearly define and enhance the responsibility for a smooth operation of information systems;
- The information system risk management was improved in order to eliminate the probability of losing data and assure the reliability of data;

- Measures for eliminating of non-compliances with legislative acts identified during the audit.

## 2.6. IMPLEMENTATION OF RECOMMENDATIONS AND RESOLUTIONS

In 2006, the National Audit Office of Lithuania made 1182 recommendations to audited entities, with implementation deadline set for the same year. The percentage of implemented recommendations increased as compared with 2005 (by 0.1 percentage point), i.e. of the total recommendations, 82 per cent were implemented (Figure 11).

Figure 11. Implementation of recommendations in 2004-2006



It is evident that recommendations of public auditors are of relevance and help audited entities to conduct their activities in a proper way and achieve higher results.

## 3. TOWARDS PARTNERSHIP AND CO-OPERATION

### 3.1. THE COMMITTEE ON AUDIT OF THE SEIMAS: AN IMPORTANT PARTNER IN ENHANCING THE IMPACT OF PUBLIC AUDIT

The Committee on Audit of the Seimas has a particular influence in enhancing the impact of public audit, which by means of parliamentary control helps radically enhance implementation of recommendations of the National Audit Office. The Committee became National Audit Office's partner who encourages audited institutions to meet the public audit recommendations and control

their implementation by the means of parliamentary measures; in broad sense, helps manage the public property more wisely.

In 2006, the Committee on Audit discussed 21 performance audit reports and 13 financial audit reports. The Seimas adopted 6 resolutions and the Committee on Audit passed 15 resolutions on the performance of the National Audit Office of Lithuania and on public audit reports, in which the Committee on Audit made proposals to the Speaker of the Seimas, Board of the Seimas, committees of the Seimas, Office of the Seimas, Government, Ministry of Agriculture, Ministry of Health, Ministry of the Interior, Ministry of Finance, and Ministry of Environment, Public Procurement Office, municipalities and other institutions.

A system for co-operation with the Seimas, Committee on Audit of the Seimas, other committees, commissions, and members of the Seimas is being developed in order to enhance the impact of public audit: for an increasingly efficient implementation of the National Audit Office's recommendations and for an increasingly effective parliamentary control. At the meeting held at the end of 2006, the National Audit Office of Lithuania and the Committee on Audit of the Seimas reached a decision to approve key co-operation guidelines by common agreement. At present the procedure for submitting public audit reports and opinions to the Committee on Audit of the Seimas, and the procedure for statement of the Auditor General's dissenting opinion on resolutions of the Government is already developed and being implemented.

### **3.2. ADVISER TO MUNICIPAL CONTROLLER SERVICES**

Within its remit set forth by the Law on the State Control and the Law on Local Self-Government of the Republic of Lithuania, the National Audit Office of Lithuania carried out an external review of audits conducted by municipal controllers (municipal controller services) (hereinafter referred to as Services).

Representatives of Services nominated by the Association of Municipal Controllers also participated in external reviewing.

An external review is aimed at evaluating the policy and procedures for the audit quality assurance of an audit institution, relating to the general audit activities and audit effectiveness in order to disseminate best practice, determine areas of training of auditors, and provide reliable information on quality of the audits.

For reviewing, we selected 15 Services out of 60. We carried out review of 15 financial audits and 7 performance audits.

Upon synthesising findings of the reviews, we prepared a report on the external review of audits conducted by a municipal controller (municipal control service), which was delivered to the

Committee on Audit of the Seimas, Committee on State Administration and Local Authorities of the Seimas, the Government, Association of Municipal Controllers in Lithuania, and Association of Local Authorities in Lithuania.

Review findings show some risk factors that may affect the activity of Services and audit quality:

- insufficient publicity of findings of audits in a number of Services;
- Services do not provide legal advice;
- the qualification upgrading did not get a necessary attention.

The validation of audit quality of specific audits (financial and performance) highlighted material shortcomings and non-compliance with the Public Auditing requirements which resulted in an inadequate reliability level of audits.

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Table 9. Recommendations made to municipal controllers.

With a view to assuring audit quality in municipal controller services where only one person is employed, we recommend to the Committee on State Administration and Local Authorities of the Seimas in co-operation with the Association of Municipal Controllers to consider the issue of amending legislative acts relating to activities of municipal controller services.

We recommend forming a municipal commission for the annual evaluation of employees of municipal controller service in order to ensure the independence of municipal controller service.

With the aim of enhancing publicity of activities of municipal controller services (and the impact of audits carried out by them), we recommend to municipalities to publish on website and/or make public through other mass media all reports and opinions on audits conducted by and the annual report of a municipal controller service.

We recommend to form, when necessary and possible, audit groups, and nominate the head of a group in order to secure the propriety of quality control of audits.

We recommend to plan and use appropriations for training up to the maximum amount in order to ensure adequate qualification of municipal controller services.

With a view to ensuring the compliance with the Public Auditing Requirements, we recommend to upgrade the qualification in the fields of planning, conducting and of financial and performance audits, and presenting audit findings.

With a view to assuring the quality of audits conducted by the municipal controller services, we advice to plan profiting from services of professionals in specific areas and to plan funds for such services in annual cost outlay.

We suggest to send a draft audit report in writing to an audited body for adjustment and comments, or to draw an appropriate working document.

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Considering the recommendations of the National Audit Office, the Committee on State Administration and Local Authorities of the Seimas moved a draft of amendment and supplement to some articles of the Law on Public Service at the end of December 2006. 4 paragraph of article 221 of this draft stipulates that the evaluation commission formed by the municipality council shall evaluate the service performance of civil servants of municipal controller (municipal controller service), head of centralised municipal internal audit service, internal auditors, and members of the commission for evaluation of employees or civil servants of municipal institutions. A representative of the National Audit Offices and/or the Ministry of Finance may be incorporated into this commission.

At the beginning of January 2007, the Working Group of the Seimas moved a draft of Law on Local Self-Government (revised version) where Paragraph 9 of Part 9 of Article 27 stipulates that audit reports and opinions of a municipal controller (municipal controller service) should be published on municipality's website, and, if possible, made public through other mass media.

While helping municipal controller services to master methodologies developed by the National Audit Office, employees of the National Audit Office of Lithuania prepared training material and conducted seminars (Table 10).

<b>Training course topic</b>	<b>Hours</b>
Audit sampling	24
Report and opinion of financial audit	24
Putting into practice of the public auditing requirements	16
Planning of the audit. Audit selection (selective research) and evaluation of selection results	48
Performance audit	8
Internal control. Internal control evaluation in the course of financial audit	21
Analytical procedures	6
Planning of schedule for audit and audit quality control	6
<b>Total</b>	<b>153</b>

### 3.3. CO-OPERATION WITH OTHER INSTITUTIONS

Pursuing that the audit policy and the evolution of standards would ensure the transparency of operation, the National Audit Office of Lithuania takes an active part in implementation of the reform of book accounting and financial accountability of the public sector. It systematically analyses drafts of standards of book accounting and financial accountability of the public sector developed by the Ministry of Finance. It submits comments and proposals on these drafts to the Ministry of Finance.

In line with the co-operation agreement concluded between the National Audit Office, the Association of Internal Auditors, the Association of Municipal Controllers, and the Lithuanian Chamber of Auditors in 2006, guidelines for co-operation programme and draft of co-operation programme for 2006-2009 were drawn up, which refer to a lot of important issues such as:

- proposal to co-ordinate and by common efforts refine the legislative acts that regulate the audit and accounting, public sector audit methodologies and standards;
- to share experience and information relating to the control of use of the European Union funds;
- to improve and intensify the co-operation with the Committee on Audit of the Seimas, Ministry of Finance and other public institutions and organisations.



### **3.4. DISSEMINATION OF BEST PRACTICE**

The National Audit Office of Lithuania is not only an evaluating institution. Taking advantage of the fact that audits conducted by us are the source of best practice (and of information about systematic errors) in the public sector, we attempt not only to identify errors made by audited bodies, but also to disseminate information about the best achievements. In other words, we attempt to become a counsellor to audited institutions and organisations, and disseminators of the best practice.

Auditors noted that when operating some institutions and organisations surely commit errors, but they also are very successful in managing certain areas of their activity; for example, as to accounting, they have developed and properly implemented procedures for acquisition, accounting and writing-off of the fixed assets, which set down adequate internal control procedures, and they have and abide by strict rules for the protection of information property.

We noted that the spread of successful solutions of individual institutions and organisations across the public sector is quite limited, because there is no tendency to share good practice amongst public institutions.

In 2006, we organised discussions with representatives of ministries (state secretaries of ministries, accountants, and internal auditors) on the organisation of accounting, finances, management of State-owned property held by trust instruments, organisation of internal control, report on the execution of the State Budget, report on the State debt, report on the State-owned property, and other issues. We carried out a survey of the state secretaries of the ministries. A majority of respondents positively evaluated the benefit of public audit opinions and recommendations.

As the survey highlighted that the dissemination of best practice across the public sector is not sufficient, we decided to start developing a best practice dissemination system that should help the public institutions and organisations in sharing the best organisational and executive practice.

### **3.5. PROCESSING CITIZENS' COMPLAINTS**

In 2006, the NAOL received 199 complaints and applications, of which 95 were examined (written answers have been sent to applicants), and 104 were forwarded to law enforcement and other institutions within their remit. The following issues prevailed:

- use of resources of the State Budget / municipal budget and other state / municipal funds, financial irregularities, disposal of the State-owned / municipal property (21.6 per cent);
- State governance (11.5 per cent);

- land reform and other real estate (9 per cent);
- social and private life (9 per cent).

### **3.6. INTERNATIONAL CO-OPERATION**

Public audit is a rapidly developing area of public administration, where there can not be simple and long-lasting answers to life questions. The National Audit Office of Lithuania actively interacted with other supreme audit institutions (hereinafter referred to as SAIs), analysed the expertise of foreign colleagues, learned from their achievements and errors, and shared its own accumulated knowledge.

#### **International audits**

In 2006, a representative of the National Audit Office of Lithuania attended an annual meeting of the Working Group on Value Added Tax of the European Union, where we, together with colleagues from Poland, presented findings of parallel audit “Co-operation of Tax Administrators of Member States of the European Union in sharing the VAT-related information”.

An initiative was voiced at the VI EUROSAI Congress (2005) to start conducting audits of reduced rates of taxes. Supreme audit institutions of Lithuania, Germany, Cyprus, Latvia, Switzerland, and Russian Federation conduct audits of application of reduced rates of VAT. Findings of these audits carried out by the supreme audit institutions shall be synthesized and included into a common report on audits of reduced tax rates to be presented at the VII EUROSAI Congress in 2008.

A representative of the National Audit Office of Lithuania was occupied in the work relating to parallel audit of the Working Group on the Structural Funds. This Working Group produced a report relating to a parallel audit based on findings of all members of the Working Group, which was presented at and approved by the Contact Committee of the Heads of the SAI on 12 December 2006.

At the seminar of the EUROSAI Working Group on Environmental Auditing held in 2005, a great number of European SAIs expressed their interest in an international parallel audit of “The establishment of the Protected Areas Network NATURA 2000“. The National Audit Office of Lithuania was also occupied in this audit. Findings of the audit were presented at a meeting of the EUROSAI Working Group on Environmental Auditing held in Luxemburg in November 2006. Members of the Working Group shared the opinion that countries which participated in this audit should present a progress report on the audit impact on protected territories in a respective country at a meeting of the EUROSAI Working Group on Environmental Auditing to be held in 2007.

#### **Participation in activities of INTOSAI and EUROSAI**

At the invitation of the Secretary General of ARABOSAI, the Auditor General Ms Rasa Budbergytė participated in a meeting of the Governing Boards of both organisations, ARABOSAI and EUROSAI (Ms Rasa Budbergytė is a Vice-President of the Governing Board of EUROSAI).

The National Audit Office of Lithuania has been actively engaged in collaboration with INTOSAI committees, including Professional Standards Committee, Public Debt Committee, Working Group on Privatization, and Training Instructors Working Group of the INTOSAI Development Initiative (IDI). Moreover, representatives of the National Audit Offices were occupied in activities of the EUROSAI committees and working groups, including Training Committee, Working Group on Environmental Auditing, Working Group on Value Added Tax Audit co-ordinated by the EUROSAI, Working Group on IT.

### **Cooperation with the European Parliament, European Commission, and European Court of Auditors**

The delegation of the National Audit Office, together with the Chairman of the Committee on Audit of the Seimas attended a seminar hosted by the Committee on Budgetary Control of the European Parliament “The Role of Budgetary Control Committees“. The Auditor General and the Chairman of the Committee made presentations on their respective practice of co-operation between a supreme audit institution and a parliamentary committee.

Representatives of the National Audit Office of Lithuania participated in events hosted by the European Commission dealing with topics that are particularly important to the SAI activities such as accrual-based public sector accounting and its modernisation, financial control, co-operation with the European Anti-Fraud Office (OLAF) etc.

At the invitation of Ms Irena Petruškevičienė, a Member of the European Court of Auditors, the delegation of the National Audit Office of Lithuania headed by the Auditor General Ms Rasa Budbergytė participated in meetings (discussions) on methodology of the European Court of Auditors, internal financial audit, common agriculture policy audit, audit of the Structural Funds, audit of information systems, and other issues.

The National Audit Office of Lithuania hosted Mr Hubert Weber, Chairman of the European Court of Auditors (ECA), and Ms Irena Petruškevičienė, a Member of the European Court of Auditors. At the meeting with the Auditor General Ms Rasa Budbergytė they discussed the co-operation of the ECA and NAOL, and on the role of internal audit in the system of accounting for the EC finances. During the meeting with Mr Viktoras Muntianas, Speaker of the Seimas, the guests discussed various issues, including the co-operation between the Supreme Audit Institution and the Parliament, the role of parliamentary control for ensuring the effective use of EU funds.

## **Development of bilateral and multilateral relations with SAIs of various countries of the world**

As a further step in bilateral relations, the National Audit Office of Lithuania concluded a co-operation agreement with the Court of Accounts of the Republic of Moldova.

While implementing a project “the Self-analysis of management of information technologies in supreme audit institutions” of the EUROSAI Working Group on Information Technologies, a representative of the National Audit Office of Lithuania headed a seminar on the self-analysis of information systems hosted by the Ukrainian Court of Accounts.

### **Cooperation with SIGMA**

SIGMA (Support for Improvement in Governance and Management), is a joint initiative of the OECD and the European Union, was launched to help countries in Central and Eastern Europe to modernise their public governance and management, which provides an intellectual support, expert advices, and organises events. At the request of the National Audit Office, in 2005-2006 SIGMA experts carried out an evaluation of the National Audit Office’s performance and made presentation of the evaluation report to institution’s employees.

SIGMA organized seminars to representatives of Slovakian and Hungarian SAIs on sharing expertise relating to SAPARD certification issues, in which specialists of the National Audit Office of Lithuania participated in the capacity of consultants.

### **Organising international events**

We held the workshop of the Working Group on Audit Methodology “The implementation of audit quality guidelines and quality assurance” to the heads of SAIs of new EU Member States. Coordinators of the seminar: SIGMA, European Court of Auditors, and experts of the Audit Quality Group of the Contact Committee.

We hosted a meeting between representatives of SAIs, audit committees of parliaments, and Ministries of Finance of Estonia, Latvia, and Lithuania, peers of SIGMA/OECD, representatives of NAO of the United Kingdom, Mr Herbert Bösch, Vice Chairperson of the Committee on Budgetary Control of the European Parliament, and Ms Irena Petruškevičienė, Member of the European Court of Auditors.

#### 4. EXTRACT FROM THE FINANCIAL STATEMENT 2006 OF THE NATIONAL AUDIT OFFICE

##### 4.1. ASSETS AND LIABILITIES

Table 10. Assets and liabilities of the National Audit Office of Lithuania (LTL).

Item	31-12-2005	31-12-2006
Non-current tangible assets	15.230.100	16.019.700
Non-current intangible assets	1.300.600	1.968.300
Stocks	173.200	217.300
Current assets	1.202.900	1.205.400
Cash	6.800	33.800
Amounts receivable (debit)	168.600	24.200*
Depreciation of non-current assets	6.146.800	6.585.300
Non-current assets fund	10.383.900	11.402.700
Current assets fund	1.202.900	1.205.400
Other funds	42.500	34.800
Amounts payable (credit)	177.000	74.200**

\* Amounts receivable (LTL 24.200) consist of advances paid for goods and services under contracts and advance payment invoices at the end of 2006.

\*\* Amounts payable (LTL 74.200) are for goods and services. Of the total amount, an amount of LTL 59.700 is due for training services, for which payments will be made after approval of costs as eligible by the European Social Fund Agency within 30 days. Amounts due for other goods and services were paid in January 2007.

##### 4.2. USE OF ALLOCATED APPROPRIATIONS

Table 11. Use of appropriations allocated for the Public Audit Office (LTL).

	2006	
	Appropriation plan, including adjustments	Used appropriations (cash expenses)
<b>Total appropriations</b>	<b>20.900.800</b>	<b>20.711.000</b>
for:		
remuneration in cash	13.986.100	13.984.500
social insurance payments	4.336.,200	4.329.100
Goods and services	2.524.500	2.362.500
Social payments	54.000	34.900
<b>Total appropriations for acquisition of assets</b>	<b>1.275.000</b>	<b>1.212.500</b>
for:		
construction (buildings and construction works	500.000	463.900
acquisition of non-current assets	775.000	748.600*
<b>Total appropriations</b>	<b>22.175.800</b>	<b>21.923.500</b>

\*Remaining unused amount allocated for special PHARE programme (co-financing) for 2005 totalling LTL 228.000 was used for the implementation of the investment project 2005-2006 "Capacity Building of Public External Audit Aimed at Practical Implementation of Acquis".

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## AUDITOR'S OPINION

### To the Seimas of the Republic of Lithuania

1. We have audited the accompanying financial statements, reports on the implementation of plans and budgets and the Explanatory Notes (hereinafter referred to as financial statements) of the State Audit Office and verification of the Annual Report. The financial statements of the National Audit Office and all the information disclosed in these financial statements was prepared and submitted by and is entirely the responsibility of the management of the National Audit Office. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the National Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessment of the accounting principles used and estimates made by the management, as well as evaluating the overall financial statement presentation in accordance with the established reporting framework. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the financial statements, in all material respects, give a true and fair view of the financial position of the National Audit Office as of 31 December 2006 in accordance with the legislative acts regulating the accounting and financial accountability in the Republic of Lithuania. Data presented in the Annual Report prepared by the management of the NAOL do not contradict the data disclosed in the financial statements.

4. In our opinion, the Annual Report 2006 of the National Audit Office is consistent with the audited financial statements.

Vilnius, 8 March 2007  
Provisus UAB  
Certificate of Audit Company No 001230

Director-auditor Elena Jankevičienė  
Auditor's certificate No 000097

*/Signature/*

## **ABSTRACT OF SIGMA REPORT<sup>5</sup>**

### **1.1. Introduction**

1. In the middle of 2005, the National Audit Office of the Republic of Lithuania (currently known as Lithuanian National Audit Office) requested that SIGMA works with them again and carries out a second peer review of the National Audit Office of the Republic of Lithuania. The first Peer Review has been carried out by experts from the Supreme Audit Institution of Denmark, the European Court of Auditors, and the Cour des Comptes of France in 2000. The performance of the Office received a positive evaluation and this led to a comprehensive development programme based on the preparation of a well defined Strategic Development Plan (SDP). Representatives of the UK National Audit Institution, together with other partners from national audit institutions in Sweden and Denmark, have been providing the main technical assistance partners in the period 2002-2005 through the PHARE twinning programme funded by the European Commission. This programme was implemented in two stages and covered four main areas: audits, organisation and management, information and communication. The National Audit Office of the Republic of Lithuania appreciated the outcome of this programme. In SIGMA experts' opinion, it is evident that the National Audit Office of Lithuania has managed these activities in proper way and derived benefit from them in building its institutional capacities. The experts consider that the National Audit Office of the Republic of Lithuania is now a modern and functioning supreme audit institution (SAI). It is not as it was at the time of the first review of institutional performance, i.e. a control and investigation organisation.

2. In the course of preparation for this review and during the dialogue with SIGMA, it became clear that whilst the National Audit Office of the Republic of Lithuania has already reached a very good level of professional and technical development and operates in line with EU standards, it required further motivation and suggestions to move beyond this level and towards good practice and high standards in its work. Therefore, SIGMA specialist advice and recommendations were needed to focus on further improvements to the quality and standards of financial and performance audit, and on the Office's operational and functional effectiveness, and the public accountability system of Lithuania. The role of the National Audit Office of the Republic of Lithuania in providing assurance and advice to the public and the Seimas as to whether the Government has provided a

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<sup>5</sup> This document has been produced with the financial assistance of the European Union. The views expressed herein are those of the author, and can in no way be taken to reflect the official opinion of the European Union, and do not necessarily reflect the views of the OECD and its member countries or of the beneficiary countries participating in the SIGMA Programme.



good and honest stewardship and effective management of state resources, and value for money in the delivery of its programmes is very important indeed.

## **1.2. Objectives of the review of institutional performance**

3. The main objective assessment was to help the National Audit Office of the Republic of Lithuania in making sensible decisions regarding its further operation and performance. The aim was to make the Office fit for its purpose of ensuring public sector accountability by providing high quality audit reports and other output, in order to help ensure a better and more cost effective delivery of public services.

## **1.3. Summary of review findings**

4. The main findings of the review are as follows:

- Since 2000, when the previous review of institutional performance was carried out, the National Audit Office of the Republic of Lithuania has been developing more modern and effective audit approaches for performance and financial audit.

- The current legal base has served the Office's purpose through the developing and transitional phase. However, a new legislation is needed for strengthening the independence of the National Audit Office of the Republic of Lithuania and the Auditor General in several key areas: financial and operational, EU audits, and a longer single term of office for the Auditor General; a more effective and comprehensive mandate for financial audits of public sector bodies is required. The functions of the Auditor General and the Deputy Auditor General should be more clearly set out, including those relating to the Auditor General's approval and authorisation of the National Audit Office of Lithuania published reports.

- The extent of progress made by the National Audit Office of the Republic of Lithuania in adopting and applying modern and professional financial audit practices has been exemplary, especially in view of the high regulation and political constraints that previously affected public accountability in Lithuania. Everyone in the National Audit Office, and especially those involved in the pilot audits, deserves considerable praise for their commitment to this change process, however, the real challenge facing the Office is to build on this experience and fully develop its potential to become a leading public sector audit body. In that context, there remain a number of constraints that still affect the professional development and effectiveness, so the Peers have made a number of recommendations to address the issues affecting the financial audit process.

- A key part of the professionalisation of the financial audit process will be to professionalise the technical audit training of financial auditors to the best standards available in Lithuania. This

means that auditors should be able to participate fully in the certifying process of the Lithuanian Chamber of Auditors. It may be necessary to change the existing legal framework in order to enable the National Audit Office of Lithuania to train professional audit staff.

- A significant financial audit issue identified concerns the legal framework governing the preparation and audit of public sector accounts, which needs to be further, clarified in order to improve both public accountability to Parliament and the efficiency by which audits are carried out. In particular, the Peers recommend that changes to the existing legislative acts include the adoption of the entity concept as a basis for financial reporting and accountability, and that, as part of the review of legislation, a specific consideration is given to rationalising the number of public sector accounts that require to be audited.
- The overall view of the Peers is that the quality of performance audit reports produced by the National Audit Office of Lithuania has improved immensely in a relatively short period of time, and that the Office has moved quickly in the direction of conducting quality performance audit examinations.
- To make performance audit examinations of high quality is a difficult task and there is still room for improvement in the practice of the National Audit Office. The Peers find that there are two areas where the National Audit Office of Lithuania should focus their initiatives in the short term. Firstly, the National Audit Office of Lithuania should focus on recommendations to a higher degree, which will create a solid base for the improvement of public governance and for conducting efficiency and effectiveness analysis in the future. Secondly, the National Audit Office of Lithuania should focus the content of their reports towards material issues that will have impact on the better delivery of services and good governance.
- The Public Audit Office needs to anticipate that it has moved from a predominantly developmental environment to a performing office environment. This will greatly affect the strategy of the National Audit Office of Lithuania for the future.
- The strategic focus for the next five years should be on developing the quality and usefulness and impact of the audit reports.
- There is a need to develop the working arrangements of the top management team. More work needs to be done to further enhance the capability and capacity of all managers in the National Audit Office of Lithuania to the very highest levels. The management of resources and audits needs to be further developed, with particular attention to the development of better resources management systems and time recording procedures.
- The Public Audit Office needs to address the need for an IT audit capacity and ICT strategy, and to implement such a strategy effectively. Budget constraints will need to be overcome in order to develop this area rapidly and effectively.

- Developing sound and business-like relations with the new Committee on Audit of the Seimas is very important. A good start has been made and needs to be maintained by further developing the effective operation of the Committee. The relations between the National Audit Office of Lithuania and the Committee on Audit of the Seimas also need to be further developed and strengthened within both the Parliament and the National Audit Office of Lithuania needs for independence.

#### **1.4. The Development of the National Audit Office of the Republic of Lithuania**

5. The activities that the National Audit Office of Lithuania have carried out in order to implement the recommendations of the SIGMA peer review of 2000 were reviewed. The activities are impressive and produced many beneficial results. The strategic development plan created with SIGMA support has been useful in managing change and development. The new strategy for 2006 and beyond will also be good for guiding the National Audit Office of Lithuania to better performance (see also Section 6). The use made by the National Audit Office of Lithuania of the EU Twinning Instrument has been exemplary. Activities under successive twinings (with the UK National Audit Office and other SAI partners) have become more and more effective as the National Audit Office of Lithuania has gained experience of the process. However, it is obvious that the ending of the twinings has left somewhat of a “development void” but this is being overcome without significant problems.

6. As a result of the Lithuanian accession to the EU in May 2004 the National Audit Office’s contacts with other Member States Supreme Audit Institutions, the Court of Auditors (ECA) and other EU institutions have become more frequent and normal. It has a highly developed and well functioning international co-ordination and relations unit. Membership of the EU has brought with it the receipts of various funds and 'own resources' and the need to provide assurance to the EU concerning disbursement of funds etc. The National Audit Office of Lithuania has also been involved in collaboration and networking with other former candidate countries for mutual improving of basic audit structures and procedures. The National Audit Office of Lithuania is today an outward looking and well motivated organisation. During the period up to 2005, the state financial system has also developed rapidly and Lithuania has most recently introduced a modern public internal financial control and internal audit systems. This represents a major step in public financial management and control accountability and has been supported by the National Audit Office.

7. Along with the new developments in the state financial management goes an increased expectation that the National Audit Office of Lithuania should add value with its audit and be capable of giving assurance and audit comments and recommendations to all stakeholders in the state accountability system. Another major step in enhancing the accountability structure for the

public sector audit was taken in 2005 when a separate Committee on Audit was established at the Seimas to deal with the activities and reports of the National Audit Office.

### 1.5. Background to the Peer Assistance

8. In the middle of 2005, the Auditor General of the Republic of Lithuania asked SIGMA to review and address issues for further developments in time for them to be considered and, if accepted, included in the next Public Audit Strategy of the National Audit Office of Lithuania for the years 2006-2010. The Auditor General also asked for a specific review and support of the legal framework to be undertaken so that any issues of financial and operational independence and their possible enhanced role in the audit of local government could be fully discussed and considered.

9. The SIGMA peer assistance review therefore began with a review and detailed discussions on the current legal and Constitutional framework for the National Audit Office of the Republic of Lithuania; and a short review of progress in relation to the recommendations made in the 2000 SIGMA peer review. The Peers then focused on the major challenges for the National Audit Office of Lithuania for the immediate years to come during two one week field missions in November and December 2005. This Detailed Report discusses and presents recommendations for some of the challenges and opportunities the National Audit Office of Lithuania will need to consider for finding their own particular solutions to the situation and needs in Lithuania at the present.

10. SIGMA engaged very senior and experienced auditors from Denmark, Ireland, Scotland, and Germany<sup>6</sup>. They performed their assignment under the guidance of Nick Treen, Senior Advisor, SIGMA. Besides the field work carried out, the Peers held meetings at OECD in Paris before and after the field missions for planning and reporting coordination. The outcomes of this review are presented in the paper “The Detailed Report of the Peers”. It gives many comments and recommendations based on the Peers’ experiences, analysis and knowledge, and the detailed discussions held with the Lithuanian Peers, for the National Audit Office of Lithuania to consider.

### 1.6. Criteria and methods

11. The criteria used by SIGMA and the Peers for assessing the National Audit Office’s present state of performance derive from the INTOSAI (International Organisation of Supreme Audit Institutions) Auditing Standards and related Guidelines. Additionally, for the Financial Audit, the standards and guidance issued by the International Federation of Accountants (IFAC<sup>7</sup>) have also been used. However, due to the present level of development in the National Audit Office, other forms of “good practice” for the public sector have also been applied – especially those that relate to the EU and have been agreed by the EU SAI Contact Committee. The review was based on a

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<sup>6</sup> Peer Assistance Team: Andrew Anderson, Scotland, Colm Dunne, Ireland, Jens Risbjerg, Denmark, Dr Detlev Sparberg, Germany and NATO, Nick Treen, the SIGMA SAI expert and Peer Assistance Review Team Leader; and Tara McAndrew and Mimi Bessarat, SIGMA Project Assistants.

<sup>7</sup> <http://www.ifac.org>

combination of document review and interviews with the audit staff at all levels as well as detailed and intensive dialogue with the National Audit Office of Lithuania management. A sample of both Financial Audit and Performance Audit planning documents, internal approval processes, and reports were analysed in order to obtain a better understanding of the quality of recent audit work. The Peers also held discussions with representatives of the major stakeholders such as Committee on Audit of the Seimas, which deals with the National Audit Office's reports, as well as senior officials at the Ministry of Finance and a number of Ministries in order to obtain an audited entity and client perspective. The Peers also spoke to representatives of governmental Internal Audit Units, and found particularly helpful and useful the discussions held with the Ministry of Finance Central Harmonisation Unit. Auditing professional bodies in Lithuania were also a good source of advice and information for the SIGMA Peers.

12. It is evident that the National Audit Office of Lithuania has made a significant progress in moving towards becoming a modern and effective Supreme Audit Institution in a relatively short time. The Peers are aware that the Lithuanian public sector in general is still in a period of significant changes following EU accession, many of which will affect the National Audit Office. Therefore it is perhaps more opportune than ever to pursue those developments in the way audits are planned and carried out, which will pay dividends for all interested parties in later years. Achieving this will undoubtedly require some fundamental thinking through of priorities, audit approach, appropriate resource levels, and allocations, and a period of stability as well as the commitment of the Seimas to support and help in developing the National Audit Office of Lithuania and public accountability to the very best European and international standards and practice. The Peers consider this to be a very realistic aim, and well within the competencies and capabilities of the National Audit Office.

13. Comprehensive exit conferences as well as a clearance procedure with the National Audit Office Peers have been applied to this Report. The Peers are exceptionally grateful for all the positive and professional interaction, comments, suggestions, and discussion received from all the National Audit Office's Peers and from the outside interested parties who participated in the peer assistance. However, where there may remain factual imperfections and unrealistic recommendations in the report this is the responsibility of the SIGMA Peers.

### **1.7. Acknowledgements**

14. SIGMA and the Peers want to express their gratitude to the Peers of the National Audit Office of Lithuania who so actively and professionally contributed to the Review - Auditor General Rasa Budbergytė, her two Deputy Auditor Generals, Viktoras Švedas and Arūnas Juozulynas, and Directors, other senior auditors and staff of the National Audit Office. This is especially relevant to

the main speaking partners and the organisers of the review the Director of International Relations Dainora Venkevičienė and her assistant Aldona Puteikienė. They have the grateful thanks of the SIGMA Peers for their knowledge and understanding of the National Audit Office of Lithuania and their commitment and effort to making the peer assistance review a useful and helpful process. The Peers are particularly thankful to Dainora Venkevičienė for her work with us on proposals for a new Law on the National Audit Office. All the staff at the National Audit Office of Lithuania gave the SIGMA Peers much time and provided much interesting and stimulating discussions during the Peer Review. Without their knowledge and open attitude to discussing possibilities as well as problems, this Peer Review would not have been possible to carry out so well. Many thanks also go to the expert team of interpreters and translators<sup>8</sup>.

**NICK TREEN**

**SIGMA**

31 March 2006

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<sup>8</sup> Alina Dailidėnaitė (Team Leader), Almantė Gibaitė and Natalija Krutkienė

## LIST OF AUDITS AND OPINIONS IN 2006

### Mandatory opinions for the Seimas

Opinion on the account of the execution of the State Budget 2005;  
Opinion on the report on public debt;  
Opinion on the report on the State-owned property;  
Opinion on the draft State Budget 2007.

### List of performance audits

#### *Audits of systems*

1.	13-02-2006	Controlling of Vacant Uninhabited Buildings and Premises Owned by Property Right by Kaunas and Klaipėda Municipalities
2.	09-05-2006	Municipal Waste Management
3.	31-05-2006	Strengthening of Public Health Care
4.	27-06-2006	Reform of the Network of Comprehensive Schools
5.	30-06-2006	Evaluation of Implementation of the Compulsory Civil Liability Insurance for the Damage Caused to Patients
6.	30-06-2006	On Cooperation in Sharing Information between the State Tax Inspectorate under the Ministry of Finance and Tax Administrators of the European Union States in the Area of Value Added Tax
7.	29-09-2006	Implementation of Railway Transport Sector Reform
8.	29-09-2006	Establishment of the Protected Areas Network NATURA 2000 in Lithuania
9.	31-10-2006	Real Property Exchange
10.	19-12-2006	On the Application of Reduced Value-added Tax Rates
11.	21-12-2006	Organization of Prevention of Drug Addiction and Help
12.	22-12-2006	Organization of the State Funded Catering for Schoolchildren
13.	29-12-2006	Implementation of Audit Recommendations Presented in Audit Report On Restoration of Ownership Rights to Land and Results of Evaluation of the Current Status of Land Reform

#### *Audits of programmes*

1.	22-05-2006	Staff Training Programme
2.	01-08-2006	Special National Rural Development Plan for the Implementation of SAPARD Programme 2000-2006
3.	05-09-2006	Schengen Facility Programme Projects
4.	11-09-2006	Evaluation of the Health System Development Programme of the Ministry of Health
5.	21-09-2006	Evaluation of National Tourism Development Programme Implementation
6.	29-09-2006	Stockpiling and Management of State Reserve Material Supplies



7.	29-09-2006	Evaluation of Strategic Planning and Programme „Support for Socially Disadvantaged Groups and Other Activities of the Ministry“ of the Ministry of Social Security and Labour
8.	29-12-2006	Assessment of strategic planning and the programme "Provision of Information to the Public" implemented by the Ministry of Culture"
9.	29-12-2006	Accumulation and Handling of State Reserve of Oil Products

#### *Audits of organisations*

1.	15-05-2006	Administration of Migration Processes (Management of the Migration Offices of Territorial Police Units. and Organization of their Activities)
2.	31-05-2006	Evaluation of investments into the Klaipėda State Seaport
3.	19-07-2006	Financing and Use of Funds of the Public Enterprise Lithuanian National Radio and Television
4.	13-11-2006	Activities of the Prisons Department
5.	14-12-2006	Implementation of the Plan for Revival of AB Alytaus Tekstilė
6.	15-05-2006	On Audit of Stock Company for Communal Services of the Government Office of the Republic of Lithuania Carried out Following the Seimas Resolution of 14 March 2006

#### *Evaluation of information systems*

1.	13-07-2006	General Control of Information Systems of the Ministry of Finance of the Republic of Lithuania. Control of Computerized Information Management and Supervision System of the European Union Structural Funds and European Union Cohesion Fund
2.	12-09-2006	General Control of State Information Systems. State and Institutional Levels

#### *Evaluation of implementation of recommendations*

1.	11-12-2006	Implementation of Recommendations Presented in Public Audit Report "On Evaluation of Performance Efficiency of the Public Procurement Office under the Government of the Republic of Lithuania"
2.	11-12-2006	Implementation of Recommendations Provided in the Audit Report on the Results of Evaluation of Implementation of the Programme for Provision of Accommodation to the Tenants of Buildings Restituted or Restitutable to Owners
3.	15-12-2006	Implementation of Recommendations Provided in Audit Report "Use of State Investments Allocated in 2004-2006 Programme in 2004"
4.	22-12-2006	Implementation of Recommendations Presented in Audit Report On Possibilities of the State Enterprise "Lietuvos Paštas" ("Lithuanian Post") to Improve Performance under Conditions of Increasing Competition

## List of financial audits

### *Audits of ministries*

1.	21-04-2006	Ministry of Economy of the Republic of Lithuania
2.	28-04-2006	Ministry of Finance the Republic of Lithuania
3.	12-05-2006	Ministry of Social Security and Labour of the Republic of Lithuania
4.	18-05-2006	Ministry of Justice of the Republic of Lithuania
5.	22-05-2006	Ministry of Transport and Communications of the Republic of Lithuania
6.	25-05-2006	Ministry of Foreign Affairs of the Republic of Lithuania
7.	25-05-2006	Ministry of the Interior of the Republic of Lithuania
8.	26-05-2006	Ministry of Environment of the Republic of Lithuania
9.	29-05-2006	Ministry of Culture of the Republic of Lithuania
10.	30-05-2006	Ministry of Education and Science of the Republic of Lithuania
11.	31-05-2006	Ministry of Agriculture of the Republic of Lithuania
12.	15-06-2006	Ministry of Health Care of the Republic of Lithuania

### *Audits of county governor administrations*

1.	19-04-2006	Marijampolė County Governor Administration
2.	20-04-2006	Šiauliai County Governor Administration
3.	21-04-2006	Tauragė County Governor Administration
4.	21-04-2006	Telšiai County Governor Administration
5.	25-04-2006	Klaipėda County Governor Administration
6.	02-05-2006	Panevėžys County Governor Administration
7.	10-05-2006	Alytus County Governor Administration
8.	11-05-2006	Utena County Governor Administration
9.	15-05-2006	Kaunas County Governor Administration
10.	15-05-2006	Vilnius County Governor Administration

### *Audits of government and other budgetary institutions*

1.	07-04-2006	State Railway Inspection under the Ministry of Transport and Communications
2.	10-04-2006	Lithuanian Maritime Safety Administration
3.	13-04-2006	National K. Čiurlionis Art Museum
4.	19-04-2006	Competition Council of the Republic of Lithuania
5.	19-04-2006	Governmental Liaisons Centre under the State Security Department
6.	20-04-2006	Special Investigation Service of the Republic of Lithuania
7.	21-04-2006	Customs Department under the Ministry of Finance
8.	21-04-2006	State Tax Inspectorate under the Ministry of Finance
9.	25-04-2006	Financial Crimes Investigation Service under the Ministry of the Interior

10.	25-04-2006	Lithuanian Art Museum
11.	25-04-2006	State Language Inspectorate
12.	27-04-2006	State Data Protection Inspectorate
13.	28-04-2006	Information Centre for Homecoming Lithuanians
14.	11-05-2006	Department of Statistics under the Government of the Republic of Lithuania
15.	12-05-2006	Lithuanian Academy of Sciences
16.	12-05-2006	Lithuanian National Opera and Ballet Theatre
17.	15-05-2006	Cultural Heritage Department under the Ministry of Culture
18.	15-05-2006	Library of the Lithuanian Academy of Sciences
19.	15-05-2006	Martynas Mažvydas National Library of Lithuania
20.	19-05-2006	Council of Ethnic Culture Protection
21.	19-05-2006	Department of Physical Education and Sports under the Government of the Republic of Lithuania
22.	19-05-2006	National Consumer Rights Protection Board under the Ministry of Justice
23.	22-05-2006	Fire and Rescue Department under the Ministry of the Interior
24.	23-05-2006	Lithuanian Road Administration under the Ministry of Transport and Communications
25.	23-05-2006	Police Department under the Ministry of the Interior
26.	30-05-2006	National Land Service under the Ministry of Agriculture

***Audits of courts and law enforcement institutions***

1.	05-04-2006	Druskininkai City Area Court
2.	05-04-2006	Raseiniai District Area Court
3.	06-04-2006	Kupiškis District Area Court
4.	06-04-2006	Šakiai District Area Court
5.	06-04-2006	Varėna District Area Court
6.	07-04-2006	Akmenė District Court
7.	07-04-2006	Biržai District Area Court
8.	07-04-2006	Joniškis District Area Court
9.	07-04-2006	Pakruojis District Area Court
10.	07-04-2006	Panevėžys Circuit Administrative Court
11.	07-04-2006	Panevėžys Circuit Court
12.	07-04-2006	Panevėžys City Area Court
13.	07-04-2006	Pasvalys District Area Court
14.	07-04-2006	Radviliškis District Area Court
15.	07-04-2006	Rokiškis District Court
16.	07-04-2006	Šiauliai Circuit Administrative Court
17.	07-04-2006	Šiauliai Circuit Court
18.	07-04-2006	Šiauliai District Area Court

19.	20-04-2006	Kelmė District Area Court
20.	08-06-2006	General Prosecutor's Office of the Republic of Lithuania

***Audits of universities***

1.	13-04-2006	Lithuanian University of Agriculture
2.	21-04-2006	Klaipėda University
3.	25-04-2006	Kaunas University of Medicine
4.	25-04-2006	Vytautas Magnus University
5.	02-05-2006	Vilnius university
6.	15-05-2006	Kaunas University of Technology
7.	16-05-2006	Šiauliai university

***Audits of science institutes***

1.	10-04-2006	Lithuanian Energy Institute
2.	10-04-2006	Institute of Agriculture Engineering at the Lithuanian University of Agriculture
3.	25-04-2006	Lithuanian Institute of Agriculture
4.	25-04-2006	Oncology Institute at Vilnius University
5.	02-05-2006	Lithuanian Forest Research Institute
6.	05-05-2006	Institute of Forensic Medicine at Mykolas Romeris University
7.	10-05-2006	Food Institute of Kaunas University of Technology
8.	15-05-2006	Institute of Animal Science of Lithuanian Veterinary Academy
9.	15-05-2006	Institute of Experimental and Clinical medicine at Vilnius University
10.	26-05-2006	Lithuanian Institute of History

***Audits of appropriations allocated from the State Budget to municipalities***

1.	12-05-2006	Mažeikiai District Municipality
2.	12-05-2006	Raseiniai District Municipality
3.	15-05-2006	Vilnius District Municipality
4.	16-05-2006	Kaunas City Municipality
5.	24-05-2006	Klaipėda City Municipality
6.	26-05-2006	Šiauliai City Municipality
7.	26-05-2006	Vilnius City Municipality
8.	29-05-2006	Kaunas District Municipality
9.	30-05-2006	Marijampolė City Municipality

***Mandatory audits of the European Union financial assistance***

1.	03-02-2006	Evaluation of the Management and Control System of the Community Initiative EQUAL
2.	03-02-2006	Public Audit Report on Certification Audit of the European Agricultural Guidance and Guarantee Fund (EAGGF) Guarantee Section Expenditure Statements for 2005
3.	14-02-2006	Evaluation of the System for Administration of Irregularities relating to the EU Structural Funds developed in the Republic of Lithuania
4.	28-02-2006	Evaluation of the System for Administration of Irregularities relating to the Community Initiative EQUAL developed in the Republic of Lithuania
5.	10-04-2006	Evaluation of the System for Administration of Irregularities relating to the EU Cohesion Fund developed in the Republic of Lithuania
6.	27-04-2006	Certification audit of the Special Accession Programme for Agriculture and Rural Development (SAPARD) Expenditure Statements for 2005
7.	29-06-2006	Closure audit of Cohesion Fund (ISPA) Project "Upgrading IXB Transport Corridor in 2003-2004"

***Financial audits of limited scope***

1.	16-05-2006	State Patient Fund under the Ministry of Health
2.	01-06-2006	On Public Enterprise the Seimas Publishing House Valstybės Žinios
3.	30-06-2006	On Audit of the Office of the Parliament of the Republic of Lithuania Carried out Following the Resolution of the Parliament of the Republic of Lithuania of 6 April 2006