



NATIONAL AUDIT OFFICE OF LITHUANIA

NATIONAL AUDIT OFFICE 2007 PERFORMANCE REPORT

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Foreword by Ms Rasa Budbergytė, Auditor General

National Audit Office supervising the lawfulness of the possession and use of State property and the execution of the State Budget seeks to promote accountability in the public sector as well as management oriented towards results and public needs. Each year we raise higher work quality requirements; public expectations are also higher. We are the supreme audit institution and we are aware of our responsibility.

This report provides information on main activities performed by the NAO in 2007. The extract from 2007 financial statements and opinion of an independent auditor are also added.

As each year this year we submitted to the Seimas of the Republic of Lithuania opinion on the account of the execution of the 2006 State Budget; opinion on the report on public debt and loans given from funds borrowed on behalf of the State and given State guarantees; opinion on the report on the state-owned property; and conclusions on the Draft Law on the Approval of 2008 Financial Indicators of the State Budget and Municipal Budgets. We have carried out performance and financial (regularity) audits included into the 2007 Public Audit Programme.

The most effective were audits on Programme Budgeting System, Baltic Sea Coast Land Use, Use of Land Plots Attached to State Institutions and Entities, Administration of State Registers, Organisation of University Studies, Social Integration of Disabled, Validity of Heating and Energy Prices Rise. The most attention was attracted by the NAO position on National Investor for building the nuclear power plant; audits on drug addiction prevention and support organisation; establishment of the legal acts register; organisation of free meals for school children; improvement of Lithuanian Post performance.

The last year may be also called a year of public audit methodology and NAO system development. The Public audit programming was based on audit scope and audit planning system. Methodology of financial, performance, and information systems audits were improved. In order to use available resources more rationally and efficiently we amended the institutional structure, developed the personnel policy, and approved the conception of the improvement of the NAO legal framework.

I am glad about the increasing input of our institution into the parliamentary control performed by the Seimas. 6 Seimas resolutions and 23 Seimas Audit Committee decisions were made on NAO activities and public audit reports. Only Audit Committee has considered 22 performance and financial (regularity) audit reports. Other Seimas committees also use our audit products and recommendations.

Seeking to become a reliable advisors of audited entities and organisations we develop a system of good practice dissemination. We thank auditees' management and specialists for understanding, their strive for better performance in order to improve the quality of services provided to public, and state property management.

I would like to thank the competent team of the NAO. Our auditors take active part in activities of international organisations, consult foreign colleagues; it is a high assessment of their work. Of course, professional and personal skills must be developed, therefore the NAO organises a lot of training, mostly funded by the European Union.

In 2008 the NAO will focus on the monitoring system of audit recommendations implementation and further development of the legal framework; implementation of a new accounting system and establishment of auditors' certification system. Our institution is appointed to fulfil function of audit authority for 2007-2013 programming period of the European Union structural assistance, therefore the use of EU funds will remain in our focus. The 2008 Public Audit Programme foresees 238 financial (regularity) and 41 performance audits, part of them to be finished in 2009. The amount of funds audited this year will be much more than in 2007: we are to audit by LTL 4 billions more of the State Budget and by LTL 400 million more of local governments budgets. This year we are going to focus on the state property management assessment, energy sector, environment protection, labour and social protection, law enforcement, public administration.

This year NAO performance report differs by form. For the first time we abandoned a large scale printed publication and provided the electronic version of the report. This way we are not only reducing the costs for our office but also saving the nature.

Auditor General

Main Events of 2007

- The National Audit Office (hereinafter referred as NAO) submitted to the Seimas of the Republic of Lithuania opinion on the account of the execution of the 2006 State Budget; opinion on the report on public debt and loans given from funds borrowed on behalf of the State and given State guarantees; opinion on the report on the state-owned property; and conclusions on the Draft Law on the Approval of 2008 Financial Indicators of the State Budget and Municipal Budgets.
- NAO conducted 120 audits including:
 - ▶ 59 financial (regularity) audits of state institutions and entities covering LTL 14.5 billion or 81 per cent of all State Budget appropriations spent in 2006;
 - ▶ 24 financial (regularity) audits of State Budget subsidies allocated to local governments for implementation of state functions (assigned to local governments) and funding pupils' basket covering LTL 1.3 billion or 57 per cent of all special subsidies allocated to municipal budgets;
 - ▶ 23 performance audits, 17 performance audits started in 2007, which shall be finished in 2008;
 - ▶ 8 compulsory audits of the European Union financial assistance;
 - ▶ 6 general controls assessments of information systems.
- NAO carried out 15 external reviews of audits conducted by municipal controllers' services (14 financial and 1 performance audit).
- Seimas Audit Committee considered 22 performance audit and 4 financial (regularity) audit reports. 6 Seimas resolutions and 23 Seimas Audit Committee decisions related to public audit results adopted.
- Fully or partly implemented 91 per cent of recommendations provided in 2007 public audit reports.
- NAO was appointed to fulfil functions of audit authority for the 2007-2013 programming period of the European Union structural assistance.
- Measures planned in the 2006–2010 Public Audit Strategy are implemented.
- Partial institutional reform implemented in order to improve work organisation and efficiency of performance.
- The Conception on Improvement of the NAO Legal Framework approved.
- Computerised audit management and documentation system is developed.
- Implemented the training project Improvement of the Competency of the NAO Staff in Fields of Administrative and Personal Skills, which is funded by the European Union.

1. National Audit Office is the Supreme Public Auditing Institution

1.1. Purpose of the Institution

The main function of the NAO is to supervise the lawfulness of the possession and use of State finance and other property and the execution of the State Budget. The mandate of the NAO is set forth in the Constitution of the Republic of Lithuania, the Law on the State Control, and other legal acts.

NAO is an institution accountable to the Seimas, facilitating the implementation of the parliamentary supervision of the executive power. Public auditing is one of parts of parliamentary control system. When fulfilling its functions the NAO carries out public audits of two types: Financial (regularity) and performance.

Mission

To help the nation manage and use property, funds, and other resources wisely thus assisting the Parliament in execution of parliamentary control and promoting progress in the public sector, as well as supervising the lawfulness of the management and use of the State property and execution of the State Budget.

Strategic Goal of Public Auditing

To promote accountability in the public sector as well as management oriented towards results and public needs, and progress in finance management and control systems.

Due to various tasks raised for public audit, different public audit product, and the expected effect, strategic goal of the NAO is divided into five smaller objectives:

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

- To promote advanced practice of the management and control of information technologies and information systems in the public sector.

Values

- Professional excellence
- Ethical behaviour
- Impartiality
- Integrity
- Objectivity
- Independence
- Team work
- Responsibility

Tasks

NAO performs in line with its main tasks:

- to supervise the lawfulness and efficiency of the possession and use of State property and the execution of the State Budget;
- to promote positive and effective impact of public auditing on finance management and control systems as well as public management oriented towards results and public needs.

Activities Directions

1. Reports to Seimas:

- opinion on the account of the execution of the State budget
- opinion on the report on public debt and loans given from funds borrowed on behalf of the State and given State guarantees
- opinion on the report on the state-owned property
- annual report of the State Control

2. Financial (regularity) audits:

- State Budget appropriations
- special subsidies to local governments
- European Union financial assistance
- general controls of information systems

3. Performance audits:

- public sector systems
- State Budget Programmes
- organisations performance
- European Union financial assistance
- information systems

4. Cooperation:

- with Seimas,
- Seimas Audit and other Committees
- international audit organisations, etc.

5. Dissemination of good practice:

- publication of experience of other institutions: good practice as well as lessons to be learned

1.2. NAO on the Way of Institutional Development

NAO keeps on analysing its own performance, adjusting priorities and measures of its activity, develops audit methods, improves the quality of audit reports and opinions, increases the competency of public auditors taking into consideration permanently changing needs, experience of supreme audit institutions of other countries, progress of science and technologies.

Implementation of the 2006–2010 Public Audit Strategy

The Public Audit Strategy for 2006–2010, which was adopted in 2005 states the main directions of the Public Audit Strategy implementation measures as follows:

- To strengthen the independence of public audit.
- To strengthen cooperation with Seimas, Seimas Committee on Audit, and other Seimas Committees.
- To enhance processes of public audit:
 - ▶ to ensure conformity of public audit objectives and scope with public audit mission and strategic goal;
 - ▶ to manage relations with audited entities;
 - ▶ to improve public audit quality.
- To enhance NAO institutional processes:
 - ▶ staff recruitment, training, competency appraisal, motivation, promotion systems;
 - ▶ resources and time planning systems;
 - ▶ internal communication and internal information dissemination systems.

Each an action plan is adopted for implementation of the Public Audit Strategy.

Enhancement of audit independence and publicity

The independence of a supreme audit institution from audited entities and its protection from external interferences a basic precondition for unbiased and efficient implementation of institution's objectives. The NAO is a part of the state as a whole therefore it absolute independence is impossible; however each year we make efforts to enhance its functional and organisational

independence. Taking into consideration a comprehensive peer report produced by SIGMA in 2006 and seeking to strengthen the independence of public audit in 2007 we developed and adopted the Conception of Improvement of the NAO Legal Framework.

One of expected outcomes of NAO public audits shall be to ensure the unrestricted dissemination of information to the public. NAO pays much attention to public information, promotes interest in its work and outcomes of public audits. In 2007 NAO designed a new version of the web-site www.vkontrolė.lt, in which annual audit programmes, audit results (audit reports and opinions) statements made by Auditor General and Deputy Auditors General as well as other information on NAO activities are published. Via mass media press releases are published as well as answers to questions posed by TV, radio, and press; NAO officials publish articles, take part in TV and radio programmes presenting outcomes of audits performed and news of public audits. The results of strengthening publicity are demonstrated by the increased interest of mass media to public audit outcomes. The most attention was focused on such audits as Prevention and support for drug addiction, Organisation of free meals for school children, Administration of register of Lithuanian Republic laws and other legal acts; Opinion on the account of the execution of the State budget, and Opinion on the report on public debt as well as NAO study on National Investor.

Although public audit is only five year old the credit of the institution performing it is constantly increasing. The increase of the credit to NAO performance is reflected by results of public opinion polls published in Lithuanian daily newspapers.

Development and Improvement of the Public Audit

Development and improvement of the public audit and related processes is the most significant direction of the Public Audit Strategy, oriented towards improvement of public audit planning, clearness of audit scope and objectives, their conformity with public sector changes; increase of public audit efficiency, economy, and effectiveness; improvement of the quality of audit reports and opinions.

- **Improvement of the public audit planning system.** In 2007 the design of Public Audit Programme was improved by introducing the audit scope estimation and public audit planning system; the performance audit strategic planning methodology was improved by introducing monitoring of individual public sector areas and identification of problem areas.

- **Improvement of quality of public audit.** Taking into consideration the experience accumulated and practice of supreme audit institutions from other countries, the methodology of assessment of financial, performance, and information systems audits.
- **Introduction of the computerised audit management and documentation system.** In 2007 we continued the active development and introduction of new NAO computerised audit management and documenting system, which was created when implementing the European Union PHARE programme. In 2007 89 pilot audits (61 per cent of all audits conducted) were documented in this system. Taking into consideration institution's needs we develop other parts of the system: personnel information management and accounting; registering, validating, and accounting of correspondence; accounting of library publications; information subsystem of the NAO archive.
- **Standard design and contents of reports.** Seeking to strengthen the credit of the NAO and to shape its public image we made standard appearance and design of reports and opinions produced by the NAO. This was foreseen in Public Audit Strategy and recommended by SIGMA experts.
- **Enhancing quality control and quality assurance.** In 2007 rules of external review were revised, a new audit review procedure established to assess audit quality better. On the basis of reviews outcomes auditors' training is arranged.
- **Improvement of follow-up monitoring system.** Implementation of audit recommendations is one of NAO performance assessment criteria, which provides information on the effectiveness of public audit. Taking into consideration public needs and foreign experience we started to improve the follow-up monitoring system, which shall help us to implement better recommendations produced in public audit reports, to eliminate detected shortcomings, and to assess the impact of public audit.

Structure and Staff

Since 2005 the NAO is headed by the Auditor General Ms Rasa Budbergytė. She is appointed for a five year term by the Seimas of the Republic of Lithuania on the recommendation of the President of the Republic of Lithuania.

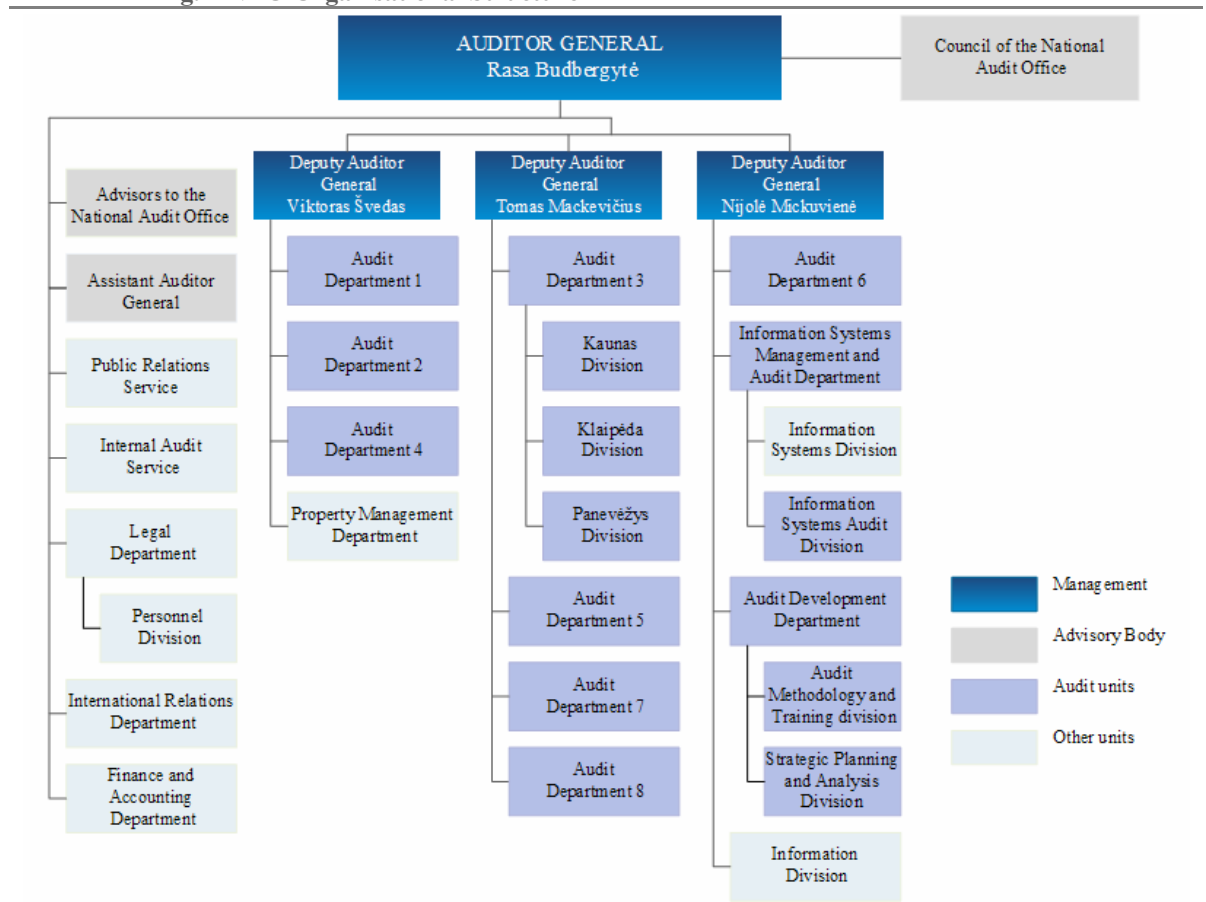
The NAO Council is an advisory body to Auditor General, which provides Auditor General with advise on key strategic and audit issues and considering key NAO performance and work in it issues. In 2007 the Council was comprised of 14 members: the NAO management and heads of audit units.

In 2007 the third Deputy Auditor General was appointed by the President of the Republic of Lithuania decree.

In order to ensure the functioning of the 2007-2013 period of the EU structural assistance and implementation of the audit authority functions a new unit – the 8th audit department was established in the NAO.

Having assessed the performance of individual structural units, to improve work organisation and performance the partial reorganisation was carried out in 2007: Audit Development, Information, and Information Systems Management and Audit departments were reorganised (Fig. 1). Audit Methodology and Training and Strategic Planning and Analysis divisions were established at Audit Development Department; Information Technologies Management and Audit Department was reorganised into Information Systems Management and Audit Department with Information Systems and Information Systems Audit divisions inside; Information Division was established instead of Information Department.

Fig. 1 NAO Organisational Structure

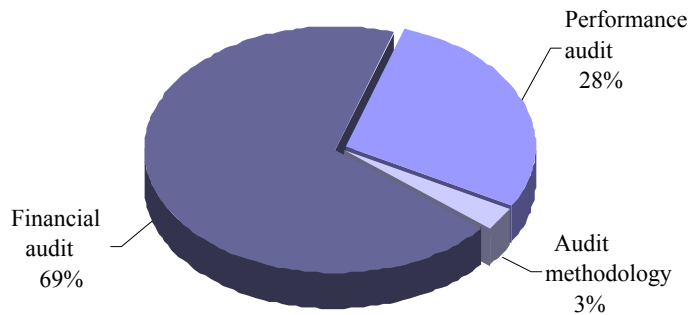


By the end of 2007 there were 335 employees; during the year 36 left the office and 27 joined. The distribution of staff by status is as follows:

- State officers – 1 per cent;
- Civil servants – 83 per cent including 70 per cent carrying out audits;
- Employees working on labour contracts – 16 per cent.

The distribution of civil servants carrying out audits by type of activities is provided in Fig. 2.

Fig. 2 Distribution of auditors by type of activities



Staff Development

Seeking to ensure proper organisation of audit process, high competency of the staff and audit quality the NAO pays much attention to personnel training and consistent competency development.

NAO further implemented the training project “Development of NAO staff skills in administrating and personal skills areas”, which was started in 2006 and funded by the European Social Fund. One of the main goals of the project is to develop NAO staff skills in administrating and personal skills areas, which are necessary for implementing job functions, organising audit process and ensuring work efficiency.

When implementing the above training project and providing training funded from the State Budget in 2007 180 training events were organised to the NAO staff. On average each NAO employee spent 10 days for training.

Taking into consideration project goals the main focus was put on development of administrative skills of the NAO staff. Workshops on management were arranged for heads of units, audit team leaders, auditors. Much attention was paid to improving audit skills, computer skills (ECDL training, audit management and documentation training), improving knowledge of foreign languages.

In 2007 LTL 550 thousand were spend for training including:

- LTL 400 thousand from European Social Fund;

- LTL 150 thousand from the State Budget.

In order to ensure necessary competency of auditors in 2007 the NAO started to establish certification system for auditors of public legal bodies. It should cover public auditors' training, continuous improvement of competency, testing and awarding publicly accepted certificates attesting their competency.

2. Public Audit Impact on Public Sector Accountability

2.1. State Accounts and Revenue Audit

Implementing the NAO strategic goal strengthening parliamentary control exercised by the Seimas in the area of public accounts and revenue the NAO achieved the planned results (Table 1).

Table 1. Comparison of results achieved with assessment criteria for state accounts and revenue set forth in the Strategic Plan

Assessment criteria	2007 planned	2007 actually	Criteria implementation
<i>For outcome:</i> 1. Proportion of fully or partially implemented recommendations to all recommendations of revenue audits (per cent)	87	87	Met
<i>For product:</i> 1. Number of compulsory opinions submitted to Seimas (including NAO performance annual report) for one auditor	1	1	Met
2. Number of implemented revenue audit projects for one auditor	1	1	Met
3. Number of financial audit projects of implemented state revenue accounts (form 1-VP) for one auditor	1	1	Met

Opinion on State Accounts and the Next Year Draft State Budget

The objective of state accounts audit is assessing whether the opinion on the account of the execution of the State budget; opinion on the report on public debt and loans given from funds borrowed on behalf of the State and given State guarantees, and opinion on the report on the state-owned property (hereinafter referred as State Accounts) are in all material aspects conform to legal acts requirements, whether they do not contain essential distortion of information, and to produce on them an independent opinion.

NAO produced 3 compulsory opinions on 2006 state accounts:

- opinion on the account of the execution of the State Budget was unqualified;

- opinion on the report on public debt and loans given from funds borrowed on behalf of the State and given State guarantees was unqualified;
- opinion on the report on the state-owned property¹ states that as for being true and regular the account conforms to actual requirements of legal acts concerning the reporting on state-owned property; it does not contain essential distortion of information from data the account was prepared; and it shows the state property situation as much as prescribed by requirements of accounting state property. However taking into account the fact that public sector accounting and financial statements system is not consistent; does not meet international accounting standards; part of assets is not evaluated or its value estimated improperly; there are no reliable data on the number and kind of property, which should be registered, is unregistered in public register therefore this account does not show the true and fair financial situation of the state property.

In addition the NAO submitted to the Seimas Committee on Budget and Finance the Opinion on the 2008 Draft State Budget.

The opinions of the NAO contain information to Seimas, which is necessary for approval of state accounts, and the opinion on the next year Draft State Budget, which is submitted to the Seimas Committee on Budget and Finance, contains opinion and considerations concerning the forecasts of state revenue and appropriations, improvement of budgeting process.

Outcomes and Impact of Opinions Submitted to Seimas

Seimas, taking into consideration NAO recommendations on the account of the execution of the State Budget and on the account of public debt adopted a protocol resolution recommending to the Government:

- To develop budgetary programmes evaluation system so that state institutions and entities should state more specifically the expected outcomes of their activities.
- To set forth a procedure of disclosing forecasts of revenue and factors affecting the revenue collection applied when drafting budget.
- To provide in the account of the execution of the State Budget information on revenue not received because of tax subsidies.

- To set a period for using special programmes funds transferred to the next budgetary year.
- To analyse causes of appropriations reallocation between programmes clearly dividing unused appropriations and appropriations, which have lost their purpose.
- To set forth that appropriation managers shall submit a declaration of assurance on financial control along with financial statements.
- To set more exactly priorities of the Government Reserve funds in order this funds would be allocated only for those needs and measures that could not be foreseen when adopting the State Budget.
- To initiate the amendment of Laws on Public Debt and on Local Government adding a provision that the municipal accounts on debt obligations and provided guaranties and loans shall be submitted to the Ministry of Finance along with a municipal controller's report.
- To design necessary legal acts regulating the internal control activities.

Seimas Committee on Budget and Finance having considered the NAO opinion on the 2008 Draft Law on Approving State Budget and Municipal Budgets Financial Indicators recommended to the Government to improve it following the NAO recommendations.

Seimas having considered the NAO opinion on the 2005 report on the state-owned property decided not to approve this report and recommended to the government:

- To develop an action and measures plan on registering property in number and value in corresponding property registers.
- To appoint an institution responsible for property search information system administration; to adopt terms of reference of this system, and procedure of preparing the property report. (In 2007 the institution responsible for property search information system administration was approved by the Government Resolution: state enterprise State Property Fund Valstybės turto fondas)

Seeking for a more rational management of state property in July 2007 Seimas recommended to the Government:

- To draft necessary legal acts appointing one institution representing the property owner – the state – to shape and implement the general policy on the management, use, and disposal of state property.

¹ Opinion on 2006 state-owned property account was not considered by Seimas; in 2007 Seimas considered opinion on 2005 state-owned property account.

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- To make a decision on the service apartments system reform and legal regulation of this system

State Budget Revenue Audit

In order to strengthen the parliamentary control of budget execution in field of budget revenue collection the NAO conducted 2 audits:

- **Assessment of tax and other fees to the budget account development by the Customs Department.** Taking into consideration audit recommendations the Customs Department adopted regulations establishing rules of offsetting amounts paid by a taxpayer to the customs, procedures of tax accounting and reporting.
- **Having conducted the audit of services provided by budgetary institutions when implementing special programmes** we recommended to the Government of the Republic of Lithuania to initiate amendments and to develop legal acts in order to clarify for what services budgetary institutions shall charge fees; clearly and comprehensively define services subject to fees; to set forth principal of estimating and recalculation of charges for services provided.

2.2. Financial Audit

Implementing the strategic goal promoting introduction of the advanced financial management and control systems in the public sector the NAO achieved the following results (Table 2).

Table 2. Comparison of results achieved with assessment criteria for state accounts and revenue set forth in the Strategic Plan

Assessment criteria	2007 planned	2007 actually	Criteria implementation
<i>For impact:</i> Progress of public sector in introducing finance management and control systems	Yes	Yes	Met
<i>For outcome:</i> 1. Unqualified and qualified opinions by individual auditees categories (per cent)	90	95	Met
2. Proportion of fully or partially implemented recommendations (per cent)	87	90	Met
<i>For products:</i> 1. Proportion of audited funds to State Budget appropriation (per cent)	76	85	Met

The objective of financial (regularity) audit is as follows: to assess auditee's internal control including finance management, the legality of management, use, and disposal of auditee's property (state or municipal), and to issue independent opinion on whether financial and other statements are true and accurate.

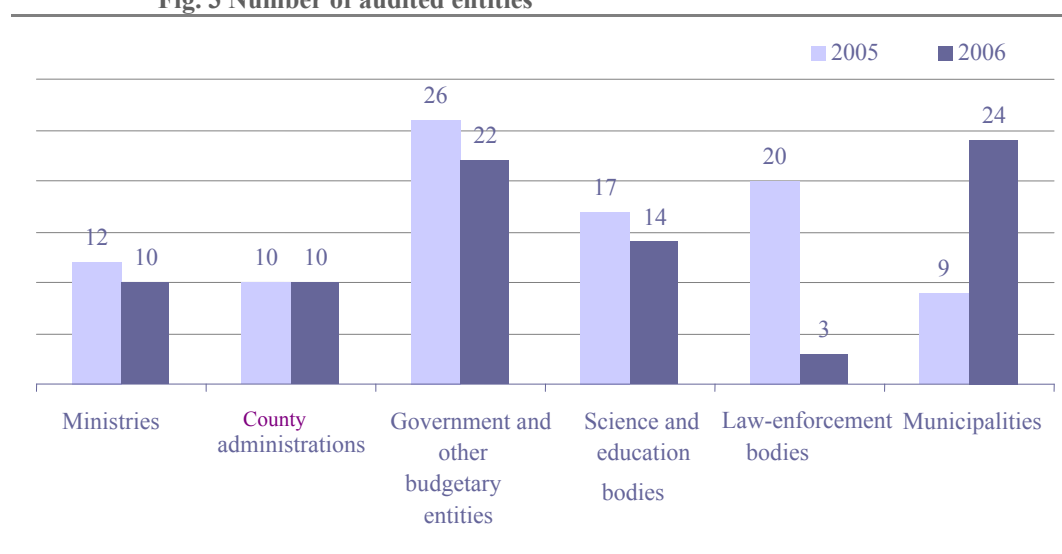
In addition, concluding financial (regularity) audits we produce:

- assessment of auditee's next year draft budget regularity. Results are submitted to auditee's management before the draft budget shall be passed to the Ministry of Finance;
- outcomes of internal control assessment to the auditee along with recommendations on improvement of efficiency of internal control procedures;
- assessment of interim (tree quarters) financial accounts. This provides management with opportunity to correct detected errors and to provide more accurate data in annual financial accounts.

In 2006-2007 public financial (regularity) audit programme we decided to assess legality of procurement, rent, and use of office cars at all our auditees. The information collected was used for the performance audit “Evaluation of Transport Costs in Public Institutions (Entities)”

In 2007 the NAO conducted financial (regularity) audits at 59 institutions and entities, heads of which were in 2006 State Budget appropriations managers (Fig. 3). In comparison with 2005 the number of auditees decreased however the amount of appropriations increased by LTL 2.3 billion (from LTL 12.2 billion in 2005 to LTL 14.5 billion in 2006)

Fig. 3 Number of audited entities



Concerning 2006 financial accounts accuracy more modified opinions (qualified, adverse, and disclaimer of opinion) were issued (Table 3). The main reason is that two thirds (66 per cent) of new auditees, which were not audited in previous years.

Table 3. Opinions on accounts of state institutions and entities managers

Type of opinion	In 2006 on 2005				In 2007 on 2006			
	accounts accuracy		regularity of state assets management, use, and disposal		accounts accuracy		regularity of state assets management, use, and disposal	
	Number	per cent	Number	per cent	Number	per cent	Number	per cent
Unqualified	60	71	41	48	29	49	30	51
Qualified	24	28	43	51	27	46	28	47
Adverse	-	-	-	-	2	3	-	-
Disclaimer of opinion	1	1	1	1	1	2	1	2
Total	85	100	85	100	59	100	59	100

In 2007 on regularity of state assets management, use, and disposal 51 per cent of auditees received unqualified opinions, which is only 3 per cent better than in the previous year. It means tha NAO seeking to facilitate appropriations managers in improving internal control, which should ensure the conformity with law and other regulations in managing, using, and disposing state assets, shall pay more attention to this area.

NAO also audits the use of State Budget funds allocated to local governments. Financial (regularity) audits were carried out in 24 local governments assessing how the latter used State Budget subsidies allocated for implementing state functions (transferred to local governments) and funding the school children basket. In 2007 we audited at local governments LTL 1.3 billion of State Budget funds, allocated in 2006 for municipal budgets. This made 57 per cent of all subsidies (in comparison to the last year the amount increased by LTL 0.5 billion). Compared to the last year in 2007 more unqualified and less qualified opinions were issued (Table 4).

Table 4. Opinions issued to local governments

Type of opinion	In 2006 on 2005				In 2007 on 2006			
	accounts accuracy		regularity of state assets management, use, and disposal		accounts accuracy		regularity of state assets management, use, and disposal	
	Number	per cent	Number	per cent	Number	per cent	Number	per cent
Unqualified	2	22	2	22	16	67	12	50
Qualified	5	56	5	56	8	33	12	50
Adverse	-	-	1	11	-	-	-	-
Disclaimer of opinion	2	22	1	11	-	-	-	-
Total	9	100	9	100	24	100	24	100

While carrying out financial (regularity) audits the special attention was paid to the assessment of auditees' internal control. This is one of ways to improve finance management transparency and accountability. The efficient internal control ensures regular, ethic, economic, and effective performance; responsibility of management and staff for their decisions and actions managing and using state property; conformity with laws and other regulations; protection of assets from loss, abuse, errors and fraud.

In comparison with the previous year the internal control in state institutions has improved however not much (Fig. 4).

Fig. 4 Assessment of internal control



It is worth noticing that at neither auditee we found out the deterioration of the internal control system.

Financial Audit Impact

- During audits we detected 532 violations of legal acts, more than a half (55 per cent) of which were eliminated.
- State institutions, enterprises, and local governments recovered to the State Budget till the end of the budgetary year LTL 5.7 million of funds, which were used not as intended or breaching legal acts.
- LTL 8.1 million worth property was recovered including:
 - ▶ at ministries and entities within their competence the value of property was increased by LTL 2.8 million;
 - ▶ at counties administrations the value of property was increased by LTL 5.6 million and by LTL 0.8 million decreased;
 - ▶ at local governments the value of property was increased by LTL 0.5 million.
- 4 statements were issued concerning violations of legal acts.
- Documents of 3 audits were passed to the Prosecutor General Office. The main reason was the allegedly negligent bookkeeping by responsible staff.
- Information was passed to the Government of the Republic of Lithuania, State Labour Inspectorate, Public Procurement Service, Central Project Management Agency.

2.3. Performance Audit

Implementing the NAO strategic goal promoting results-oriented management in public administration entities the NAO achieved in 2007 planned results (Table 5).

Table 5. Comparison of results achieved with assessment criteria for performance audit set forth in the Strategic Plan

Assessment criteria	2007 planned	2007 actually	Criteria implementation
<i>For outcome:</i> 1. Proportion of fully or partially implemented recommendations (per cent)	81	83	Met
<i>For product:</i> 1. Number of implemented public performance audit projects for one auditor	0.6	0.6	Met

The objective of performance audit is to assess an auditee's public and internal administration activities from the economy, efficiency, and effectiveness point of view and to disclose opportunities for performance improvement.

Seimas of the Republic of Lithuania approved in 2002 the Long-term State Development Strategy where set state development goals and priorities. The economic basis of the Strategy implementation shall be ensured by financial resources and system of distribution of state financial resources. NAO performance audits are also a mean of the Strategy implementation, monitoring, and control.

While implementing the 2007 public audit programme 23 audits were finished, 17 audits started and planned to be finished in 2008.

Performance audits carried out in 2007 by NAO essentially covered all public sector activities areas (Table 6), the main attention was paid to state finance management and public administration.

Table 6 Number of audits by areas

Area	Number of audits
Finance management	4
Public administration	3
State economy and market control	2
Environment protection	2
Social protection and labour	2
State property management	2
Health care	1
Construction	1
Transport and communications	1
Energy sector	1
Information systems	1
Education and science	1
Agriculture	1
Defence	1
Total	23

When conducting performance audit we assess the performance of one or few institutions or individual parts of them; programmes funded from state or municipal budget, or other state monetary funds. According to audit object we can identify three areas of performance audit application: programme audit, organisation audit, and system audit (Fig.?).

Fig Performance audit application by audit objects

PERFORMANCE AUDIT

Programme audit

Assessment of a certain programme funded from state, municipal budget or other state monetary funds from the economy, efficiency, and effectiveness point of view

Organisation audit

Assessment whether an organisation uses its resources economically, efficiently, and effectively, how it implements assigned functions, recommendations for performance improvement are provided

System audit

Assessment of performance and management, performance coordination from the economy, efficiency, and effectiveness point of view of several entities related by their activities and having common objectives and tasks

Taking into consideration Seimas proposal² to Focus on systemic analysis of auditees' performance in 2007 we carried out mostly system audits, which made 84 per cent of all performance audits. Comparing to 2006 there were twice as much systemic audits, which remain the priority area of performance audit. This demonstrates that the remit and complexity of performance audits conducted by NAO are increasing.

² Seimas of the Republic of Lithuania Resolution No. X-1122 of May 10, 2007 "On National Audit Office 2006 Performance Report".

Examples of performance audit outcomes and impact

Programme Budget System. Auditors detected that it was necessary to revise the too high number (over 700) of programmes implemented by appropriations managers, that goals and evaluation criteria of budget programmes are often formal, that responsibility for implementation of the programmes and the achieved results should be improved, as well as that evaluation measures of programmes set out in legal acts are insufficient for quality evaluation of legitimacy of compiling of programmes, the achieved results, and impact. The auditors gave the following recommendations: to draw up an action plan to continue implementation of the budget reform, to appoint the responsible institutions for implementation of the reform measures, to prepare measures for consistent evaluation of appropriations managers' programmes, for accountability for implementation of the programmes, as well as for development of priorities set by the Government and implementation of programme goals of public institutions; as well as to prepare strategic planning and programme drafting guidelines and to create an internet page presenting all the information related to the budget process.

Evaluation of the Use and State Control of the Baltic Coast land. It was detected during the audit that planning and implementation of the Baltic Coast territory control is inappropriate, therefore it does not create the likely value for the public. One of the most important territories of the Baltic Coast - the coastal zone – has an exclusive property status, however, it is protected insufficiently. A finding was made that the Government Representative in the County does not have proper authority to efficiently supervise (contest) decisions of the municipality's administration subjects; these decisions confirm detailed plans of territories thus violating legal acts. The Government has not approved the procedure under which public forest land would be let out. It was also detected that in the territory of the Baltic Coast there are around 1000 holiday houses, which does not ensure protection of valuable and ecologically vulnerable Baltic Coast territories. Recommendations issued: to strengthen State control of the land use in the Klaipėda County, to take measures for more efficient protection of the Baltic Coast zone, to set procedure for letting out of the public forest land, to regulate separate procedures for territories planning and control in legal acts. In order to protect valuable coastal territories, natural environment, and architectural consistency of constructions, we recommended to set restrictions on construction or reconstruction of holiday houses, as well as requirements for the use of land plot needed for them.

Use of Land Plots Allocated to Public Institutions and Enterprises. It was detected during the audit that the use of gratuitously allocated State-owned land plots is not sufficiently efficient, because some of the land plots are not used or used inefficiently; recipients of the loan for

use employ these land plots not only for implementation of their functions, but also for the benefit of the third parties. There are no criteria in legal acts as to how the necessary size of the granted public land plot should be determined. Data on the loan for use of the public land are not exact. The following recommendations were given: to develop and change provisions of legal acts in order to establish the obligation to apply to a County Governor about granting a public land plot; to establish criteria on the basis of which the need for a certain size of a public land plot would be assessed; as well as registration and systematization procedure for these land plots would be set. It was also recommended to inspect the land use and to identify the need of certain entities for a gratuitously allocated State-owned land plot for implementation of their functions.

Administration of the Register of Laws and Other Legal Acts of the Republic of Lithuania. It was detected during the audit that a public entity Legal Information Centre which uses the State-owned database of legal acts prioritized not the State-delegated public register managing functions, but private commercial purposes: to seek profit from commercial services of LITLEX provided together with a private company. The Legal Information Centre registered and managed data of the register following the procedure set by legal acts in the unfinished register of the laws and other legal acts of the Republic of Lithuania which does not perform the main functions of a register: as primary, official, reliable, and comprehensive source of information; not all the legal acts are accumulated there, the registered legal acts are not properly systematized, the search system of the register is not user-friendly.

Currently none of the public legal search systems operating in Lithuania does present official and thorough information about national, European Union, and international legal acts. Besides, several legal search systems are not useful for the State in terms of rationality: their use of information, human, financial, and technical resources of the State is not economical and efficient; duplication of functions appears, as well as an increase in administrative expenditure, therefore it is not purposeful to continue development of the register of laws and other legal acts of the Republic of Lithuania without solving the issue of creating a general official and thorough legal search system.

Organization of University Studies and Use of Fund Allocated to Studies, Science, and Investments. It was detected during the audit that allocation of the State Budget appropriations does not correspond to legal regulation; that financing of university studies is not linked to results of evaluation of Universities' activities and rating which is applied in many countries in the world; the existing study lending system is not perfect; the planning of a number of students to be accepted does not take into account the real financing of Universities, as well as labour market needs and changes in it; research for long-term need for specialists is not carried out; material facilities of

Universities do not meet the current requirements, etc. It was recommended to initiate amendments to legal acts on the development of study and science financing system, to establish financing criteria and correction rates; to approve the long-term financing plans, to perform a thorough analysis on optimization of the University network; to initiate a research for the need for specialists; to link financing of the higher education to results of University performance, rating, etc.

Social Integration of the Disabled. It was detected during the audit that the National Programme for 2003-2012 for Social Integration of People with Disability was not implemented in an integrated way, not all the responsible implementors implemented the planned measures, there was a lack of co-operation between institutions, interim evaluation and revision of implementation of this interinstitutional programme, the planning process of the programme is not sufficient. When planning funds of the Programme for Social Integration of People with Disability the number of the disabled people in individual territorial units was not taken into account, some part of funds of this programme was used ineffectively, because under the existing financing model of the Programme the most part of the allocated funds goes to administration and expenditure which is not related to implementation of the Programme measures, but not directly to satisfaction of need of the disabled. It was recommended to change the financing procedure of the Programme thus allocating funds to municipalities which would organize and coordinate the social integration process of the disabled in the territory of a municipality and would allow the nongovernmental organizations to offer and sell services to municipalities via public procurements, as well as would clearly separate the support for associations of the disabled and purchasing of services from them.

Validity of Increase in Prices of Heating and Hot Water. It was detected during the audit that regulation of heating supply market may contravene principles of fairness, impartiality, and justice, because the National Control Commission for Prices and Energy draws up and approves methodologies for setting prices of heating and hot water, calculates prices of heating and hot water, as well as controls their application. It was identified that certain provisions of the methodology should be amended. The main factors which influenced increase in prices of heating and hot water were the following: the growing prices of fuel, increase in gas distribution prices and amortization costs, as well as storing of reserve fuel. Some municipalities which have let out their heat economy do not participate in prices calculation process. A risk arises that when the lease term finishes municipal heating companies may be financially unable to pay the lessor of property under conditions set out in contracts, and thus will find themselves compelled to sell the companies to the lessor for the residual value of the leasehold. The following audit recommendations were given: to amend the Law on Heat Sector, to ensure application of provisions of the law, to develop

methodology of calculation of heating and (or) hot water prices, to draw up and approve distribution methodology of production costs of electrical energy and heating produced in combined heat and power plants using cogeneration; to envisage measures which would ensure control of lease of heat supply companies, as well as of concluding and implementing contracts, etc.

Quality Assurance System of Personal Health Care. It was detected during the audit that there is no single quality assurance system of the personal health care in Lithuania, there is no consistent co-operation and feedback among organizers, providers, and users of services, payment for the rendered personal health care services from the Compulsory Health Insurance Fund Budget is not related to health care quality in terms of effectiveness, efficiency, accessibility, acceptability, fairness, and safety. Recommendations were given on development of personal health care quality assurance system, improvement of system for payment for services, as well as development of public medical audit.

Use of State Investments for Waste Water Treatment. It was detected during the audit that development of water supply and waste water disposal was implemented without a clear strategy and without public management and regulation basics of this activity. Implementation of all the water management projects and signing of contracts is late, therefore a risk arises that Lithuania may be late with tasks envisaged in projects thus failing to deliver on commitments to European Union in the area of water management. Municipalities are not encouraged to efficiently use their resources and potential in implementing of projects, functions of projects implementation and coordination are not properly and timely distributed among institutions.

It was recommended to draw up a new water supply and waste water management strategy, to initiate amendments of legal acts, to analyse reasons behind the lag in implementing water supply and waste water management projects, identify principles of coordination of water management projects, as well as co-operation of all the institutions participating in the projects, and to approve the procedure ensuring the efficient management of these projects and coordination of actions of institutions. It was also recommended to establish and agree with the European Commission procedure for changing Financial Memoranda (EC Decisions).

Public-Private Sector Co-operation. It was detected during the audit that the number of such co-operation project in Lithuania does not satisfy the existing needs. This co-operation may greatly benefit the public and the State, because using its own funds, experience, and initiative the private

sector may provide public services, improve their quality or develop the assets needed for provision of public services.

However, documents on centralized management, coordination and supervision of the partnership process are not yet drawn up; possible forms of this co-operation are not regulated in an integrated way in Lithuania. Although institute of concessions is regulated in Lithuania, and 45 concessions projects are being implemented or initiated, however, this area remains problematic, because: (1) legal acts regulating concessions are insufficient, (2) concessions contracts are concluded violating legal acts, (3) risks are not clearly identified, assessed, and shared out between the parties in concessions contracts, (4) generally only one participant produces applications to participate in concession tenders, (5) there are no evaluations demonstrating that the drafted concession project is more efficient than other ways of asset producing, improving, or providing of services. Public sector entities which are interested in performing such projects do not receive professional consulting help, whereas the Government has not appointed an institution for provision of this help. Recommendations were given to approve public and private sector partnership strategy, to share out functions and responsibility among public institutions participating in this project, and to appoint methodically managing institution. We also recommended to regulate the definition of public-private sector partnership and possible forms of this co-operation, to supplement draft legal acts regulating the Law on Concessions and new partnership forms with provisions which would provide for preconditions for efficient, economic, and effective use of public sector resources.

2.4. European Union Financial Assistance Audit

Implementing the NAO strategic goal promoting transparent and efficient management and use of the European Union (hereinafter referred as EU) financial assistance, and to protect financial interests of the EU the NAO achieved planned results (Table 7).

Table 7. Comparison of results achieved with assessment criteria for EU fund audit set forth in the Strategic Plan

Assessment criteria	2007 planned	2007 actually	Criteria implementation
<i>For outcome:</i> 1. Proportion of fully or partially implemented recommendations (per cent)	87	88	Met
<i>For product:</i> 1. Number of implemented projects of EU financial assistance public audit for one auditor	0.54	0.57	Met

Compulsory Audits of the European Union Financial Assistance

The objective of compulsory audits of the EU financial assistance is to perform EU financial assistance expenditure accounts audits required by EU regulations and international agreements in line with set rules so that the European Commission should have ground for providing Lithuanian Republic with financial assistance.

Implementing this function the NAO performed in 2007 8 public audits:

Audits of the EU assistance management and control systems:

- 2004-2005 expenditure accounts audit of the European Communities initiative EQUAL;
- Evaluation of Accounts of the SPD for 2004 to the first half of 2006 of the EU Structural Funds (1st objective of the Single Programming Document);
- Evaluation of Sample Checks on Operations of the EU Structural Funds (except for Community Initiatives) mandatory under Articles 10 -12 of the Commission Regulation (EC) No 438/2001.

Winding-up audits of the EU Cohesion Fund:

- Audit of the EU Cohesion Fund (ISPA) project Pan European IA Transport Corridor Modernisation in 2001–2004;
- Audit of the EU Cohesion Fund (ISPA) project Technical Assistance for Environment Ministry Capacity Building for Preparing for Management of the EU Financial Assistance;
- Audit of the EU Cohesion Fund (ISPA) project Modernisation and Reconstruction of Druskininkai Sewage System.

Certification audits of expenditure accounts of the EU financial assistance:

- Certification of the EAGGF Guarantee Section Expenditure Accounts for 2006;
- Certification Audit of Expenditure Accounts for 2006 of the Special Accession Programme for Agriculture and Rural Development (SAPARD).

Audits of management and control systems of EU structural funds and European Communities initiative EQUAL are part of 2004-2006 winding-up audits. Results of these audits are used by the European Commission for evaluation of structural assistance management and control systems efficiency. European Commission on the basis of reports and opinions of winding-up audits of 2004-2006 programmes will decide on the transfer of the remaining part of financial assistance.

European Commission referring to Cohesion Fund (ISPA) projects winding-up audits opinions and reports made a positive decision concerning the transfer of remaining project funds.

Referring to 2006 SAPARD expenditure accounts certification audits results the European Commission made a decision on approving the eligibility of annual expenditure.

Having assessed the results of the NAO certification audit of the 2006 EAGGF Guarantee Section Expenditure Accounts and additional requested procedures the European Commission will make a decision on annual expenditure.

2.5. Evaluation of information systems

Implementing the NAO strategic goal of promoting advanced practice of the management and control of information technologies and information systems in the public sector the NAO achieved planned results (Table 8).

Table 8. Comparison of results achieved with assessment criteria for information systems audit set forth in the Strategic Plan

Assessment criteria	2007 planned	2007 actually	Criteria implementation
<i>For outcome:</i> 1. Proportion of fully or partially implemented recommendations (per cent)	70	72	Met
<i>For product:</i> 1. Number of implemented projects of IS audit for one auditor	0.65	0.86	Met

The results of 2006 general control of public institutions information system prompted the NAO for the second successive year to indicate the repeating reasons of problems related to information systems. We tried to look at institutions' problem wider, to look for reasons not only at institutional level but also at state regulation level. Organisation of institutions' information system internal control should be treated as a part of a general internal control system established by an organisation manager.

In 2007 public auditors considered information systems management problems in the context of the e. government establishment process. Our audits found out the following:

- provisions of e. government are outdated and do not correspond current situation; monitoring and management functions assigned to different institutions, and this may complicate the control of e. government projects implementation;
- when carrying out e. government studies sometimes there are no clearly defined main performance evaluation criteria, performance efficiency and effectiveness are not taken into consideration. Qualitative e. government studies are not regularly performed on the initiative of institutions controlling this area, and outcomes of studies performed by independent experts are not published on institutions' web pages dedicated to the e. government.
- 25 per cent of institutions accountable to the Government of the Republic of Lithuania and managing information systems do not follow information systems security requirements.

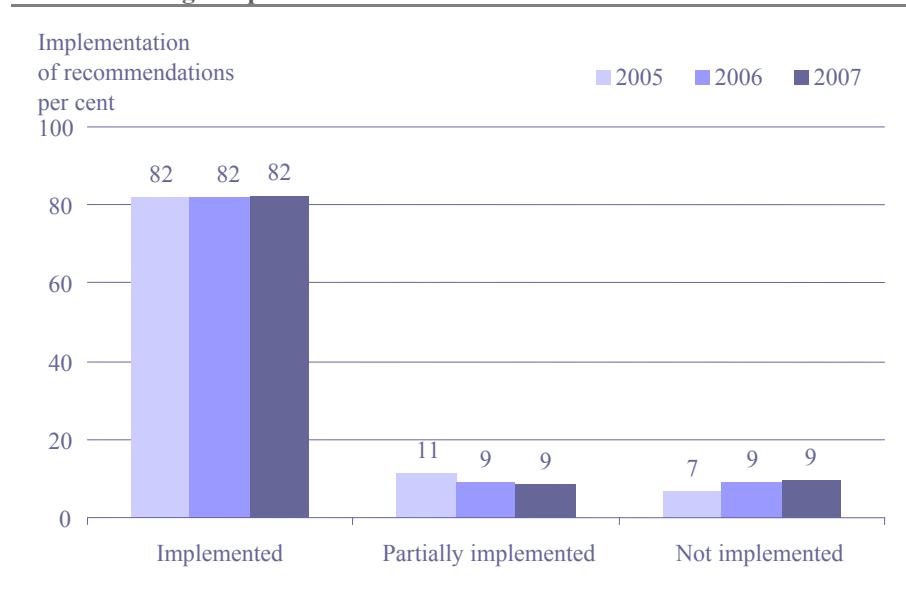
Public auditors taking into consideration audit results issued recommendations to the Government of the Republic of Lithuania, Ministry of Interior, Information Society Development Committee under the Government of the Republic of Lithuania, State Inspectorate on Data Protection, and Ministry of Finance. It was recommended to carry out constant thorough assessment of e-government projects; to analyse not only the fact of project implementation itself but also the efficiency and effectiveness of implementation; also to appoint an institution, which should monitor the implementation of IT projects funded by the World Bank and other funds; and also an institution, which could develop requirements for validation and establishment of secret information systems. Public auditors issued also other recommendations concerning the improvement of information systems and their safety.

2.6. Implementation of Recommendations and Statements

Recommendations

In total during 2007 the NAO issued 1547 recommendations to audited entities (by 13 per cent more than in 2006) with the term of implementation on the same year. As the number of recommendations issued is increasing the percentage of implementation remains the same as last year i.e. 82 per cent of recommendation (Fig ?).

Fig. Implementation of recommendations in 2005–2007



In 2007 were fully or partially implemented 643 recommendations, which were submitted to auditees in 2005 and 2006 with the term of implementation in 2007. This demonstrates that recommendations issued by public auditors are urgent and help auditees to perform properly and achieve better results.

Seeking for more efficient implementation of recommendations we are:

- developing the follow-up monitoring system;
- strengthening the cooperation with Seimas.

Statements

Auditor General or Deputy Auditors General are entitled to make a statement (administrative action) in case an audit has detected material violations of legal acts. During 2007 5 statements were made indicating:

- to inform auditee management on material violations of legal acts detected by audit and to oblige to eliminate them within a set time period;
- oblige the management of the auditees or the superior institutions to held liable under personal/civil liability guilty persons;
- in the manner prescribed by law to recover damage from guilty persons;
- upon the establishment of violations, refer, according to the competence, public audit documents subject to consideration by public administration entities or law enforcement bodies to concern within their competence: two statements were passed to the Office of Prosecutor General, one to the State Territory Planning and Construction Inspectorate under the Ministry of Environment;
- to recommend to Seimas Committee on Audit to consider public audit reports and opinions

As prescribed obligations were executed entity managers who violated legal acts were held liable under disciplinary liability; respectful institutions went to court for laying damages by responsible persons; Seimas Committee on Audit considered the recommended audit reports and opinions.

3. On the Way of Partnership and Cooperation

3.1. NAO Input into Parliamentary Control

When cooperating with Seimas: Seimas members, committees, commissions, fractions, and other structural units NAO helps Seimas to implement parliamentary control more efficiently.

In 2007 NAO submitted to Seimas opinion on the account of the execution of the State budget; opinion on the report on public debt and loans given from funds borrowed on behalf of the State and given State guarantees, and opinion on the report on the state-owned property as well as opinion on the 2008 draft State Budget.

Following Seimas resolutions NAO conducted in 2007 3 performance audits: State Supervision of Territory Planning and Construction; Consistency of Increase in Prices of Heating and Hot Water; Activities of the National Control Commission for Prices and Energy. In 2007 Seimas adopted 6 resolutions concerning NAO activities and public audit reports. By its resolution³ Seimas assigned to the NAO to conduct in the manner prescribed by law audits of the EU structural assistance received by the Republic of Lithuania during the 2007-2013 programming period.

NAO pays special attention to the cooperation with Seimas: it organises official international visits and events, participates in events organised by other supreme audit institutions. Since 2006 meetings of supreme audit institutions, ministries of finance, and audit committees of Latvia, Lithuania, and Estonia, which provide opportunity to share good practice and discuss possibilities of cooperation development. In 2007 such meeting was organised by the National Audit Office of the Republic of Latvia.

In 2007 representatives of the NAO along with the Seimas Audit Committee delegation visited Dublin, the NAO of the Republic of Ireland and Public Accounts Committee of the House of Commons of the Republic of Ireland (Chamber of Dáil Éireann). Last year the Seimas Audit Committee was visited by the President of the Council of Chamber of Audit of Netherland Kingdom.

Seeking to ensure the impact of the public audit i.e. to ensure the more efficient implementation and more effective parliamentary control in September 2007 the Terms of Reference of the NAO Cooperation with the Seimas Committee on Audit were approved; they regulate preparation of correspondent NAO officials for Audit Committee meetings, indicate responsible persons for each preparation process, and terms for implementing specific tasks. The similar preparation system is applied to cooperation with other Seimas Committees.

Cooperation with the Seimas Audit Committee enhances the public audit impact. The Committee uses parliamentary means to control the implementation of recommendations issued in public audit reports and induces respectful institutions to implement them. During 2007 the Audit Committee considered:

- 22 performance audit reports;
- 4 financial (regularity) audit reports (including the report on results of financial (regularity) audits performed when implementing the 2006 audit programme).

Referring to NAO performance report and public audit reports Seimas Audit Committee made 23 decisions containing recommendations to the Seimas Board, Seimas Chancellor, Government of the Republic of Lithuania, State Security Department, Ministries of Environment, Culture, Defence, Social Protection and Labour, councils of universities, and other institutions.

In 2007 other Seimas committees considered 19 performance and 1 financial audit report.

3.2. Advisor to Municipal Controllers' Services

According to the competence assigned by the Law on the State Control and the Law on Local Government the NAO for the 3rd consecutive year conducts the external review of audits carried out by Municipal Controllers' Services (hereinafter referred as Services). Representatives of Services appointed by the Association of Municipal Controller also took part in the process of external review.

The purpose of the external review is to assess the audit quality assurance policy of an audit institution, procedures related to general audit activities and their efficiency in order to disseminate good practice, to identify areas of training needed by auditors, to provide reliable information on audit quality.

³ Resolution of the Seimas of the Republic of Lithuania No. X-1295 of 11.10.2007 on the Amendment of the Seimas Resolution on Assigning to the National Audit Office of the Republic of Lithuania to conduct European Union Financial Assistance Audits (Žin., 2003, Nr. 70-3171).

15 out of 60 Services were selected for the review. 14 financial and 1 performance audit was reviewed.

Having summarised results of reviews the NAO developed a report on external review of audits carried out by municipal controllers' service, which was submitted to the Association of Municipal Controllers, presented to municipal controllers.

Having assessed the risks and shortcomings identified, inconsistency with Public Auditing Requirements the NAO provided the following recommendations (some of them were issued for the second consecutive year):

Recommendations issued for municipal controllers

- Seeking to ensure the quality of audits conducted by the municipal controllers; services employing just one employee we recommend to Seimas Committee on State Administration and Local Authorities along with the Association of Municipal Controllers to consider the improvement of legal acts regulating activities of municipal controllers' services.
 - Seeking to increase the publicity and audit impact of municipal controllers' services we recommend to publicise on the local authority web-site and/or other mass media reports and opinions on all conducted audits as well as annual report of municipal controller's service performance.
 - Seeking to ensure proper control of local budget and to plan audits more rationally we recommend to the Association of Municipal Controllers to develop audit planning procedures and general planning criteria.
 - Seeking to evaluate the use of local budget from the point of view of economy, efficiency, and effectiveness to plan and carry out performance audits.
 - Seeking to ensure the necessary competency of the municipal controllers' services we recommend to plan and use all available for training appropriations.
 - Seeking to ensure the consistency with Public Auditing Requirements we recommend training in areas of financial and performance audit, conducting and reporting areas.
 - Seeking to ensure the quality of audits performed by a municipal controller's service we recommend to foresee opportunities to use services of specific areas experts and to provide funds for such services in annual expenditure estimates.
-

3.3. Cooperation with Other Institutions

Seeking accounting policy and standard development to ensure the transparency of activities the NAO takes part in the implementation of the public sector accounting and financial accountability reform. We consistently analyse drafts of public sector accounting and financial accountability standards developed by the Ministry of Finance. We provide to the Ministry of Finance comments and suggestions referring to these drafts.

Since 2002 the NAO has cooperation agreements with the Special Investigation Service and the Financial Crime Investigation Service under the Ministry of Interior. Implementing these agreements the NAO passed in 2007 documents and other information collected during audits to the Financial Crime Investigation Service.

NAO consistently cooperates with various institutions when drafting legal acts, provides conclusions, comments, and suggestions concerning drafts of laws and other legal acts, considers and provides conclusions on draft Government resolutions. In 2007 the NAO has issued 12 legal conclusions, comments and suggestions concerning draft laws and other legal acts, which were submitted by various institutions for the NAO opinion.

Implementing the 2006-2010 Public Audit Strategy Implementation Action Plan for 2007 the NAO developed suggestions to the Seimas Committee on Audit concerning the draft of the Public Sector Accountability Act. NAO comments were taken into consideration drafting the Public Sector Accountability Act and amendments of Art. 2 and 9 of the Law on the State Control.

3.4. Dissemination of Good Practice

Seeking to become advisors and disseminators of good practice for our auditees we develop the system of good practice dissemination, which could help public institutions and organisations to exchange experience of good activities organisation and implementation.

Using the fact that audits performed are the source of public sector good practice and systematic errors we do not limit ourselves to indicating auditees' errors but also disseminate information on best achievements. In 2007 we developed and presented to the Seimas Audit Committee, state secretaries of ministries, auditees the report on results of financial (regularity) audits carried out according to the 2006 Annual Audit Programme. This report also contained examples of good practice. The NAO considers that good practice identified at audited entities could be applied at other auditees taking into consideration the particularity of their activities.

3.5. Consideration of People Complaints

In 2007 the NAO received 170 complaints, requests, and inquiries; two were forwarded from other institutions. We examined 114 complaints, 65 were forwarded by competence to law-enforcement bodies and other institutions. Most issues were related to:

- trade, industry, energy sector, construction, transport (16 per cent);
- state administration (14 per cent);
- land reform and other real estate (14 per cent);
- social and communal matters (7 per cent).

NAO considers in the essence complaints, applications, requests, and inquiries, which contain information relevant to its competence. This information is used for identifying additional risks when planning audits.

3.6. International Cooperation

The National Audit Office of Lithuania actively interacts with other supreme audit institutions, analyses expertise of foreign colleagues, as well as learns from their achievements and errors, and shares its own accumulated experience.

Participation in INTOSAI and EUROSAI Activities

The NAOL is a full member of INTOSAI⁴ since 1992. Active participation of the NAOL in Committees and Working Groups of INTOSAI began in 2001. Currently the NAOL is involved in activities of the following INTOSAI Committees and Working Groups: Professional Standards Committee, Accounting and Reporting, Internal Control Standards, Financial Audit Guidelines, and Compliance Audit Subcommittees; IT Audit and Public Debt Committees, as well as Privatisation, Programme Evaluation, and Environmental Auditing Working Groups.

Every third year, one member of INTOSAI organizes the Congress of international supreme audit institutions (INCOSAI). This year representatives of the NAOL participated in the XIX INCOSAI which took place in Mexico. The Congress involved presentation of the work programmes for the period up to 2010, approval of the Mexico Declaration on Independence, as well as adoption of 18 official INTOSAI guidelines. XIX INCOSAI set up four new Working Groups and Task Forces: Working Group on the Value and Benefits of SAIs, Working Group on Key National Indicators, Task Force INTOSAI Communication Strategy, and INTOSAI / UN Platform.

In the autumn, the Auditor General took part in the XXXII EUROSAI⁵ Governing Board meeting in Bern (the Auditor General is the Vice-President of the Governing Board). This meeting satisfied the application of the NAOL to organize EUROSAI seminar on financial audit issues in 2008.

Cooperation within the EU context

The National Audit Office of Lithuania continued co-operation with the European Court of Auditors by contributing to audit missions the aim of which was to audit the use of the European Community funds by providing practical and logistic support, as well as sharing specific knowledge

⁴ International Organization of Supreme Audit Institutions.

of the audited area. The staff of the NAOL took part in the following European Commission audit missions: audits of EU Structural Funds, Cohesion Fund, Guarantee Section of the EAGGF. During these audits activities of the NAOL, as well as other institutions participating in the management and control system were examined.

In 2007 representatives of the Office participated in conferences and seminars organized by the European Commission and its Directorates-General. The following topics were discussed during these events: various issues related to the EU funds audit and internal control system, priorities of the European Commission communication, work of spokespersons of the European Commission, development of e-communication tools.

On invitation of the SIGMA⁶ organization representatives of the NAOL in the capacity of experts participated in the seminar Certification and Audit of the European Union and Accession Assistance in which they presented two papers: Winding-up and Certification Audits of the European Union and Accession Assistance Performed by the NAOL and Experience of Lithuania Conducting Certification Audits of the Special Accession Programme for Agriculture and Rural Development.

Regional and bilateral cooperation

The aim of regional co-operation is to unite efforts and together solve issues related to audit in regional level. One form of regional co-operation is meetings of the heads and representatives of SAIs of the Baltic, Nordic countries, and Poland. In these meetings issues relevant to all the countries are discussed: audit methodology, personnel management and training, etc. In 2007 delegation of the NAOL took part in the annual meeting of the Nordic, Baltic countries and Poland in Tallinn.

In order to share the unique experience of the participating countries on issues of audit management, planning, and methodology, as well as legal regulation and personnel, as well as in order to jointly implement the envisaged measures, bilateral co-operation is developed: we exchange correspondence and delegations with supreme audit institutions of other countries, perform joint audits, organize international events, and go to internships. Delegations of the NAOL visited supreme audit institutions of Ireland, the Czech Republic, Russian Federation and other countries in 2007.

In order to allow the National Audit Office to participate in international projects in the capacity of donor, and seeking to envisage the potential areas for provision of support, material of the designed tenders is analysed and evaluated.

⁵ European Organization of Supreme Audit Institutions.

⁶ Support for Improvement in Governance and Management.

Extract from the NAO 2007 Financial Statements

Assets and Liabilities

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

Item	31-12-2006	31-12-2007
Non-current tangible assets	16 019.7	16 114.3
Non-current intangible assets	1 968.3	2 027.5
Stocks	217.3	250.2
Current assets	1 205.4	1 374.1
Cash	33.8	46.7
Amounts receivable (debit)	24.2	126.7*
Depreciation of non-current assets	6 585.3	7 699.2
Non-current assets fund	11 402.7	10 442.6
Current assets fund	1 205.4	1 374.1
Other funds	34.8	29.0
Amounts payable (credit)	74.2	232.0**

* Amounts receivable (LTL thousand 126.7) consist of advances paid for goods and services under contracts and advance payment invoices at the end of 2007. LTL 89.5 thousand out of which were paid for repair of premises.

** Amounts payable (LTL 232.0 thousand) are for goods and services. Of the total amount, an amount of LTL 174.7 thousand 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 2008.

Use of Approved Appropriations

Use of appropriations allocated to the National Audit Office (LTL thousand).

	2007	
	Appropriation plan, including adjustments	Used appropriations (cash expenses)
Total appropriations	23 615.7	23 018.6
for:		
remuneration in cash	15 433.0	15 187.0
social insurance payments	4 799.8	4 724.5
goods and services	3 245.3	2 970.3
social payments	137.6	136.8
Total appropriations for acquisition of assets	567.0	519.1
for:		
construction (buildings and construction works)	0.0	0.0
acquisition of non-current assets	567.0	519.1

Total appropriations	24 182.7	23 537.7
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Remark. Approved amount totalling LTL 639.9 thousand in the estimate of 2007 is transferred into 2008 for further implementation of special programmes financed from the EU funds.

Annexes

Independent auditor's opinion

HLB Provisus	Audit	Kalvariju St. 98	Phone: (8-5) 263 87 20
UAB	Accounting	LT-08211 Vilnius	Fax: (8-5) 263 87 21
	Consulting	business code 123953838	E-mail: provisus@provisus.lt
			www.provisus.lt

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 2007 of the National Audit Office and verification of the Performance Report. The financial statements of the National Audit Office and 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 2007 in accordance with the legislative acts regulating the accounting and financial accountability in the Republic of Lithuania.
4. In our opinion, the Annual Report 2006 of the National Audit Office for the State Audit Office is consistent with the audited financial statements.

Vilnius, 14 March 2008
Provisus UAB
Certificate of Audit Company No 001230

Director-auditor Elena Jankevičienė
Auditor's certificate No 000097

/Signature/

List of audits performed in 2007

Opinions on Public Accounts

Opinion on the account of the execution of the State Budget 2006

Opinion on the reports on public debt, loans granted on behalf of the State and State guarantees of 2006

Opinion on the report on the State-owned property of 2006

Opinion on the draft law on approval of financial indicators of the State Budget and municipal budgets of 2008

Financial audits

Audits in Ministries

On results of financial (regularity) audit conducted in the Ministry of Finance of the Republic of Lithuania

On results of financial (regularity) audit conducted in the Ministry of National Defence of the Republic of Lithuania

On results of financial (regularity) audit conducted in the Ministry of Culture of the Republic of Lithuania

On results of financial (regularity) audit conducted in the Ministry of Social Security and Labour of the Republic of Lithuania

On results of financial (regularity) audit conducted in the Ministry of Health of the Republic of Lithuania

On results of financial (regularity) audit conducted in the Ministry of Education and Science of the Republic of Lithuania

On results of financial (regularity) audit conducted in the Ministry of Foreign Affairs of the Republic of Lithuania

On results of financial (regularity) audit conducted in the Ministry of Economy of the Republic of Lithuania

On results of financial (regularity) audit conducted in the Ministry of the Interior of the Republic of Lithuania

On results of financial (regularity) audit conducted in the Ministry of Agriculture of the Republic of Lithuania

Audits of County Governor Administrations

On results of financial (regularity) audit conducted in Alytus County Governor Administration

On results of financial (regularity) audit conducted in Kaunas County Governor Administration

On results of financial (regularity) audit conducted in Klaipėda County Governor Administration

On results of financial (regularity) audit conducted in Marijampolė County Governor Administration

On results of financial (regularity) audit conducted in Panevėžys County Governor Administration

On results of financial (regularity) audit conducted in Šiauliai County Governor Administration

On results of financial (regularity) audit conducted in Tauragė County Governor Administration

On results of financial (regularity) audit conducted in Telšiai County Governor Administration

On results of financial (regularity) audit conducted in Utena County Governor Administration

On results of financial (regularity) audit conducted in Vilnius County Governor Administration

Summary report on results of financial (regularity) audit conducted in County Governor Administrations

Audits of the Government and Other Budgetary Institutions

On results of financial (regularity) audit conducted in the Prison Department under the Ministry of Justice of the Republic of Lithuania

Lithuania

On results of financial (regularity) audit conducted in the Cultural Heritage Department under the Ministry of Culture

On results of financial (regularity) audit conducted in the Department of Physical Education and Sports under the Government of the Republic of Lithuania

On results of financial (regularity) audit conducted in the Genocide and Resistance Research Centre of Lithuania

On results of financial (regularity) audit conducted in the Genocide and Resistance Research, Victims Support and Remembrance Memorialization Foundation of Lithuania

On results of financial (regularity) audit conducted in the Lithuanian National Philharmonic Society

On results of financial (regularity) audit conducted in the Lithuanian National Drama Theatre

On results of financial (regularity) audit conducted in the Environmental Projects Management Agency under the Ministry of Environment of the Republic of Lithuania

On results of financial (regularity) audit conducted in the Insurance Supervisory Commission of the Republic of Lithuania

On results of financial (regularity) audit conducted in the Office of the Parliament of the Republic of Lithuania

On results of financial (regularity) audit conducted in the the Securities Commission of the Republic of Lithuania

On results of financial (regularity) audit conducted in the Office of the Government of the Republic of Lithuania

On results of financial (regularity) audit conducted in the National Paying Agency under the Ministry of Agriculture

On results of financial (regularity) audit conducted in the Directorate of Border Crossing Infrastructure under the Ministry of Transport and Communications

On results of financial (regularity) audit conducted in the Police Department under the Ministry of the Interior

On results of financial (regularity) audit conducted in the Office of the President of the Republic of Lithuania

On results of financial (regularity) audit conducted in the Department of National Minorities and Emigration Abroad under the Government of Republic of Lithuania

On results of financial (regularity) audit conducted in the Transport Investment Directorate

On results of financial (regularity) audit conducted in the State Border Guard Service under the Ministry of the Interior of the Republic of Lithuania

On results of financial (regularity) audit conducted in the State Metrology Service

On results of financial (regularity) audit conducted in the State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania

On results of financial (regularity) audit conducted in the State Patient Fund under the Ministry of Health

Audits of the Government and Other Budgetary Institutions

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- On results of financial (regularity) audit conducted in the State Metrology Service
- On results of financial (regularity) audit conducted in the State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania

Audits of Courts and Law Enforcement Institutions

- On results of financial (regularity) audit conducted in the Mažeikiai Region District Court
- On results of financial (regularity) audit conducted in the Plungė Region District Court
- On results of financial (regularity) audit conducted in the Vilnius City 3 District Court

Audits of Science and Studies Institutions

- On results of financial (regularity) audit conducted in the Kaunas University of Medicine
- On results of financial (regularity) audit conducted in the Mykolas Romeris University
- On results of financial (regularity) audit conducted in the Klaipėda University
- On results of financial (regularity) audit conducted in the Lithuanian University of Agriculture
- On results of financial (regularity) audit conducted in the Mykolas Romeris University
- On results of financial (regularity) audit conducted in Šiauliai University
- On results of financial (regularity) audit conducted in the Vilnius Pedagogical University
- On results of financial (regularity) audit conducted in the Vytautas Magnus University
- On results of financial (regularity) audit conducted in the Lithuanian Academy of Physical Education
- On results of financial (regularity) audit conducted in the Lithuanian Academy of Music and Theatre
- On results of financial (regularity) audit conducted in the Veterinary Institute of Lithuanian Veterinary Academy
- On results of financial (regularity) audit conducted in the Lithuanian Veterinary Academy
- On results of financial (regularity) audit conducted in the Lithuanian Institute of Horticulture
- On results of financial (regularity) audit conducted in the Vilnius Academy of Art

Audits of Appropriations Allocated from the State Budget to Municipalities

- On results of financial (regularity) audit conducted in Alytus City Municipality
- On results of financial (regularity) audit conducted in Biržai District Municipality

On results of financial (regularity) audit conducted in Druskininkai Municipality
On results of financial (regularity) audit conducted in Elektrėnai Municipality
On results of financial (regularity) audit conducted in Kaunas City Municipality
On results of financial (regularity) audit of limited scope conducted in Kaunas City Municipality
On results of financial (regularity) audit conducted in Kaunas District Municipality
On results of financial (regularity) audit conducted in Kėdainiai District Municipality
On results of financial (regularity) audit conducted in Marijampolė Municipality
On results of financial (regularity) audit conducted in Panevėžys City Municipality
On results of financial (regularity) audit conducted in Panevėžys District Municipality
On results of financial (regularity) audit conducted in Plungė District Municipality
On results of financial (regularity) audit conducted in Prienai District Municipality
On results of financial (regularity) audit conducted in Radviliškis District Municipality
On results of financial (regularity) audit conducted in Rokiškis District Municipality
On results of financial (regularity) audit conducted in Šakiai District Municipality
On results of financial (regularity) audit conducted in Šiauliai City Municipality
On results of financial (regularity) audit conducted in Šiauliai District Municipality
On results of financial (regularity) audit conducted in Tauragė District Municipality
On results of financial (regularity) audit conducted in Telšiai District Municipality
On results of financial (regularity) audit conducted in Ukmergė District Municipality
On results of financial (regularity) audit conducted in Utena District Municipality
On results of financial (regularity) audit conducted in Vilnius City Municipality
On results of financial (regularity) audit conducted in Vilnius District Municipality
On results of financial (regularity) audit conducted in Visaginas Municipality
Summary report on results of financial (regularity) audit conducted in municipalities

Performance audits

Audit of services provided by budgetary institutions implementing special programmes
 Implementation of children's rights protection
 Public-private sector co-operation
 Evaluation of transportation charges of public institutions (bodies)
 Use of Land Plots Allocated to Public Institutions and Enterprises
 Activities of the National Control Commission for Prices and Energy
 Administration of Public Registers
 Management of public institutions information systems in the context of e-Governance
 Social integration of the disabled
 Development of the fisheries sector
 Evaluation of the use and State control of the Baltic Coast land
 Management of public debt
 Provision of the State Guaranteed Primary Legal Aid and Registration of Acts of Civil Status
 Evaluation of Drawing up of Accounting of Taxes and Other Payments to Budgets in the Customs Department
 Quality assurance system of personal health care
 Audit on Organization of University Studies and Use of Funds Allocated to Studies, Science, and Investments
 Administration of the Register of Laws and Other Legal Acts of the Republic of Lithuania
 Validity of increase in prices of heating and hot water
 Use of Resources for Reorganization of the Military Training Forces
 Public Supervision of the Territory Planning and Construction
 Use of State Investments for Waste Water Treatment
 Implementation of Recommendations Given in Audit Report Evaluation of Implementation of the State Hazardous Waste Management Programme
 Programme Budget system

European Union audits

Evaluation of on-the-spot checks of the European Union Structural Funds (except for Community Initiatives) mandatory under Art. 10-12 of Commission Regulation No. (EC) 438/2001
 On Cohesion Fund (ISPA) project No. 2003/LT/16/P/PA/004 Technical assistance to the Ministry of Environment in preparation to administer EU financial support
 On Cohesion Fund (ISPA) project No. 2000/LT/16/P/PE/ Modernization and reconstruction of Druskininkai water cleaning system
 Evaluation of Accounts of the SPD for 2004 - First Half of 2006 of the European Union Structural Funds
 Certification of Expenditure Accounts for 2006 of the Special Accession Programme for Agriculture and Rural Development (SAPARD)
 On expenditure accounts of European Communities Initiative EQUAL programme of 2004-2005
 Modernisation of the Pan-European IA Transport Corridor in 2001-2004 of the Cohesion Fund (ISPA) Project No. 2000/LT/16/P/PT/003
 Certification of the EAGGF Guarantee Section Expenditure Accounts for 2006

Evaluations of Information Systems General Control

Evaluation of Information Systems General Control in the Rytų skirstomieji tinklai (AB)

Evaluation of Information Systems General Control in the Ministry of the Interior of the Republic of Lithuania

Evaluation of Information Systems General Control in the Customs Department under the Ministry of Finance of the Republic of Lithuania

Certification of Expenditure Accounts for 2006 of the Special Accession Programme for Agriculture and Rural Development (SAPARD) (Evaluation of Information Systems General Control)

Evaluation of Information Systems General Control in the Ministry of Health of the Republic of Lithuania

Evaluation of Information Systems General Control in the Public Procurement Office the Government of the Republic of Lithuania