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# NATIONAL AUDIT OFFICE OF LITHUANIA ANNUAL REPORT 2008

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## Foreword by Ms Rasa Budbergytė, Auditor General

The Mission of the National Audit Office as the supreme public audit institution is to help the nation manage its property wisely. Today this Mission is especially important and responsible. Financial abilities of the state limited by the crisis require not only to use resources in a more economic way but also to look for new non-standard approaches for receiving maximal benefits from assets managed by the state. The duty of the National Audit Office is to help Seimas and the Government in finding these approaches.

The National Audit Office Annual Report delivered in electronic form contains data on the most important work done in 2008, an extract from the 2008 financial statements, and an independent auditor's opinion. Selecting this form of the report we seek to save Office's funds and to protect the Nature.

As each year we delivered to the Seimas mandatory reports: opinion on the account of the execution of the 2007 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. We also delivered an opinion on the 2009 draft State Budget. Summarising results of the last year work I would like to say that we performed more work than planned in the Strategic Activities Plan: we fully implemented the Public Audit Programme; our audits covered 82 % of all State Budget appropriations; audited bodies implemented 79 audit recommendations. Seimas Committee on Audit and other committees considered much more audit reports than we planned.

Our opinions on state accounts contain the following important suggestions to the Government:

- To submit to the Seimas on annual base summarised information on achieving by appropriation managers objectives set in strategies and programmes.
- To assess, whether tax deductions introduced by the law achieve intended social and economic goals.
- To specify the procedure of use of funds unused by special programmes.
- To consider the possibility to use saved appropriations for acquiring property.
- To adopt a long-term property management strategy.
- To appoint institution responsible for designing and implementing property management, use and disposal strategy.
- To undertake urgent measures for registering and accounting state owned land.
- To consider and assess the expediency of assigning funds for state investment projects.

Financial (regularity) audits revealed that finance accounting, management of state funds and other property shall be improved faster. Public auditors had no material remarks to just over half of audited bodies and could issue unqualified opinions. The assessment of internal control showed that at half of audited bodies procedures of internal control do not prevent errors of assets accounting, use of budgetary funds, and preparing financial statements. However it is worth underlying that the majority of appropriation managers corrected more than half of detected irregularities and errors, restored state assets for almost LTL 37 millions, and

recovered to the state budget LTL 722 thousand. The fact that material errors were corrected during the audit demonstrates rather significant effectiveness of public audit.

NAO carries out audits of the European Union assistance, which are used to support European Commission decisions on assigning financial aid to Lithuania. Our institution is entitled to fulfil functions of audit authority for 2007-2013 European Union structural assistance. When preparing for this mission we developed a respective strategy of auditing operational programmes.

Last year taking into consideration a Seimas suggestion we focused our performance audits on systematic analysis of state property management, energy, state economy and market control, environment protection, social protection and labour, healthcare and public administration, information systems. Let me provide with few examples of implementation of performance audit recommendations. Seimas has initiated amendments to the Law on Electric Energy, which were recommended by us on the basis of energy pricing analysis: these amendments will enable the State Price and Energy Control Commission to protect customers against unjustified price boosting. When carrying audit, which analysed the connection of new customers to the electricity distribution networks, we recommended stopping to calculate connection charge on the basis of construction value. Following our recommendations a 2009-2013 Business Innovation Programme was drafted. Responsible institutions undertook measures for implementing audit recommendations allowing to attract more direct foreign investments, improve funding of small and medium entities, promote establishment of new business and increase the efficiency of enterprises.

Last year when delivering the NAO annual report to the Seimas I promised that we shall develop a new system of audit recommendations follow-up, which will enable to assess the implementation of audit recommendations by audit means. Today I may say that such system is already designed and approved. Since now public audit reports will contain not only recommendations for improving performance but also plans for implementation of recommendations developed by audited bodies. After the expiry of the set term we shall check by audit means the implementation of recommendations. This will allow providing Seimas with more well-grounded conclusions on the progress made by audited bodies and effectiveness of public audit.

Current challenges motivate us not only to record mistakes, shortcomings or irregularities of the past but also to focus on future prospective, to prevent potential mistakes, to use public finance and other assets in the most reasonable way. When assessing the lawfulness of financial and economic transactions we shall look not only at the formal side of the issue (whether set rules were met) but also whether the rules themselves are reasonable, whether they do not make obstacles for efficient performance, whether they need amendments. So when starting this year a new financial (regularity) audit cycle we shall extend audit objectives assessing additionally the performance from the economy point of view.

It is obvious that the supervision of the state property shall be performed more efficiently with available resources. Therefore we agree with the Seimas initiative to improve cooperation between public, municipal and independent auditors. We must establish such system, which could exclude duplicating of work and ensure that we could rely without reservation on documents developed by other auditing bodies.

Presenting the results of our work I would like to thank managers, accounting officers and other staff of audited bodies, which benevolent provided public auditors with necessary information, helped in collecting audit evidence, drawing up conclusions and recommendations. I am happy that more and more people understand that we are seeking for the same objective – to achieve maximum benefits to people of Lithuania from state funds and other property.

Special thanks to the staff of the NAO, which devotes all efforts and time for developing skills, for integral and responsible fulfilment of its duties.

## Key Results of 2008

- National Audit Office supporting Seimas efforts of improving parliamentary control of state accounts and revenue delivered to Seimas opinion on the account of the execution of the 2007 State Budget; opinion on the 2007 report on public debt and loans given from funds borrowed on behalf of the State and given State guarantees; opinion on the 2007 report on the state-owned property. Opinion on 2009 draft State Budget was also delivered to Seimas.
- NAO conducted 138 audits including:
  - ▶ 79 financial (regularity) audits of state institutions and organisations, which covered LTL 17.2 billion or 82 % of State Budget appropriations used in 2007;
  - ▶ 23 financial (regularity) audits of targeted subsidies allocated from the State Budget to local governments administrations for implementation of state functions delegated to local governments and for funding pupils' basket, which covered LTL 1 billion or 47 % of special targeted subsidies used;
  - ▶ 28 performance audits on the management of state property, energy, state economy and market control, environment protection, social protection and labour, healthcare and public administration, information systems . 18 audits were started last year and to be concluded in 2009;
  - ▶ 6 mandatory audits of the European Union (hereinafter referred as EU) structural assistance;
  - ▶ 2 evaluation of general control of information systems.
- NAO carried on 14 external reviews of audits (11 financial (regularity) and 3 performance audits) conducted by municipal controllers' services.
- Seimas Committee on Audit considered 23 public audit reports including 18 performance and 5 financial (regularity) audit reports. 4 Seimas resolutions related to audits and other activities of the NAO were adopted.
- 79 % of recommendations delivered to audited bodies were fully or partially implemented.
- Measures of the 2006-2010 Public Audit Strategy are under implementation.
- Partial reorganisation of the Office in order to optimise the use of available resources, to improve work organisation and performance was implemented.
- Audit Strategy for Operational Programmes Implementing the Lithuanian Strategy for the Use of EU Structural Assistance for 2007-2013 for Cohesion Objective developed and approved by the European Commission.

## 2009 Challenges

- Extending the scope of financial audit. The management of finance and property shall be assessed not only from the lawfulness and regularity points of view but also from the economy point of view.
- Strengthening audit impact by motivating responsible institutions to implement public audit recommendations, improving public audit quality including follow-up of recommendations implementation, post-audit activities, external reviews.
- Public audit shall focus not only on what was done wrong but also what impact it will have in future so that the Parliament and the Government will be timely provided with respective information.
- Looking for new contact points between elements of the decentralised system of internal audit (including internal auditors and municipal controllers) in order to integrate them and to avoid duplicating of each other's work by participants of the financial control system participants and to rely on each other's work, obtain certain assurance from other controls.
- Strengthening current and looking for new forms of parliamentary control seeking for closer cooperation, more focus to audit reports, operational programmes and priorities, practical implementation of the auditors' attestation model.

# National Audit Office is the Supreme Public Audit Institution

## Role of the Office

The Mission of the National Audit Office as the supreme public audit institution is to help nation managing state assets wisely.

When implementing the Mission we seek to promote accountability, management oriented towards people needs, progress of finance management and control system.

When supervising whether public property is managed and used lawfully and effectively and how the State Budget is implemented the NAO seeks:

- to strengthen the parliamentary control implemented by Seimas in state accounts and revenue areas;
- to promote transparent and effective management and use of the EU financial assistance, to protect EU financial interests;
- to promote implementation of progressive systems of finance management and control in the public sector;
- to promote result oriented public administration in audited bodies;
- to promote progressive information technology and information systems management and control practice in the public sector.

National Audit Office when fulfilling its functions conducts public audit of two types: financial (regularity) and performance.

### Financial (regularity) audit

Financial (regularity) audit means the evaluation of financial statements and /or other accounts of an audited body as well as management, use and disposal of state funds and property from the point of view of legality and compliance with objectives set by the law.

In 2008 we carried out 102 financial (regularity) audits evaluating internal control including the finance management, the regularity of the management, use and disposal of the property of audited bodies. Independent audit opinions were issued on financial statements and other accounts of 79 state institutions and 23 local governments.

Financial (regularity) audit is also carried out on management and use of the EU assistance as well as on general control of information systems.

### Performance audit

Performance audit means evaluation of the economy, effectiveness and efficiency of the public and internal administration activities of an audited body.

In 2008 public auditor conducted 28 performance audits. They assessed the economy of performance measuring it against public administration principles and good practice as well as the use of human and other resources.

Efficiency (including analysis of information systems, performance indicators and monitoring) and effectiveness – the achievement of goals and outcomes of programmes implemented by audited bodies.

Performance audit is also carried out in the area of state accounts when assessing the draft Law on the Approval of Next Year Financial Indicators of the State Budget and Municipal Budgets.

### Scope of the public audit

The scope of the public audit is defined in the Annual Public Audit Programme approved by the Auditor General.

2008 Public Audit Programme aims to cover the most risky areas of the public sector and their problems, to obtain sufficient information for grounding the NAO opinion on state accounts, to carry out audits of expenditure accounts of projects and programmes funded by the EU within the scope defined in international agreements and EU regulations.

Taking into consideration results of financial (regularity) audits of previous years and having identified areas with the greatest risk of accounting errors and shortcomings we selected the following directions for 2007-2008 financial (regularity) audits:

- management, use, and disposal of state property;
- property of the Voluntary Society of Assistance to Army, Aviation, and Navy;
- transfer of property to non-profit entities (public institutions);
- 2007 expenditure for feasibility studies and scientific research;
- management of EU funds.

Choosing directions for 2008 performance audits we further developed the risk and result oriented public audit planning therefore we focused on the following public sector areas, which were selected as priorities having assessed their funding, problems, and social impact:

- management of state property and finance;
- energy sector, state economy and market control;
- environment protection;
- labour and social protection;
- public administration.



## Office results

Implementing the 2008 Public Audit Programme the NAO achieved the planned results (Table 1).

**Table 1 Comparison of performance results with assessment criteria set forth in the Strategic Action Plan**

Generalised assessment criteria	2008 plan	2008 actual	Meeting criteria
<b>Impact</b>			
1. The progress of the public sector in implementing finance management and control systems	Yes	Yes	Met
2. Percentage of qualified, adverse audit opinions and disclaimers of opinions considered by the Seimas, Seimas Committee on Audit and other committees of the total number of opinions of these types submitted for consideration during the respective period	75	86	Met
3. Percentage of performance audit reports considered by the Seimas, Seimas Committee on Audit and other committees of the total number of performance audit reports submitted for consideration during the respective period	75	85	Met
4. Strengthening of parliamentary control of the government within the public sector accountability area (number of Seimas resolutions)	4	4	Met
<b>Results</b>			
1. Percentage of implemented recommendations	70	79	Met
<b>Products</b>			
1. Implementation of Public Audit Programme	100	100	Met
2. Number of mandatory opinions delivered to the Seimas	4	4	Met
3. Percentage of State Budget appropriations covered by audits	80	82	Met

# Management of Corporate Processes

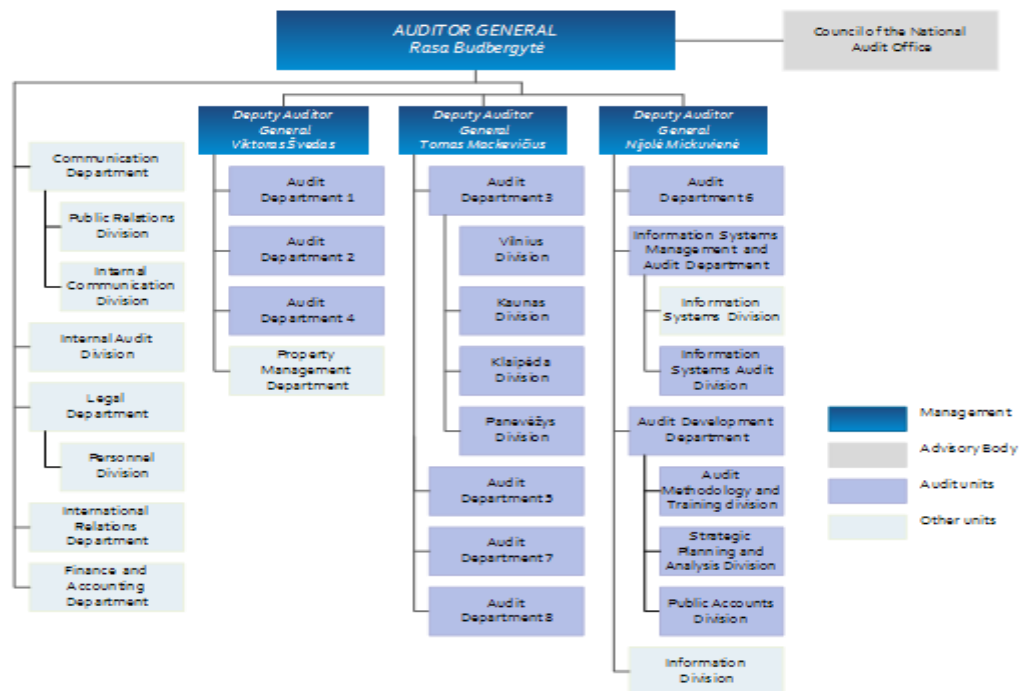
## Structure

Since 2005 the National Audit Office of Lithuania is headed by Ms Rasa Budbergytė, Auditor General, who was appointed for the five-year term by Seimas on the motion of the President of the Republic of Lithuania.

The Council of the NAO is an advisory body advising Auditor General on strategic and audit issues, considering the most important issues of NAO activities and service. It is comprised of the management of the NAO and directors of audit departments.

The NAO is comprised of departments, divisions, which are needed for implementing public audit functions. In order to improve work organisation and performance a partial reorganisation of the Office was implemented in 2008. The revised corporate structure is presented on Figure 1:

**Fig 1** 2008 organisation chart of the NAO



Šiauliai and Alytus regional units abandoned;

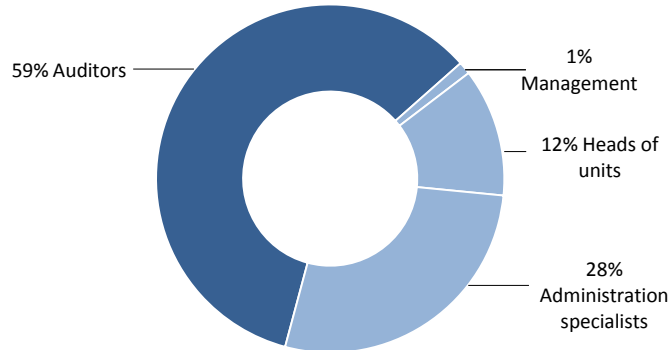
Vilnius division established at Audit Department 3 to carry out 14 financial audits of local governments and 23 financial audits of courts in Vilnius and Utena counties;

Communication Department established for developing and implementing consistent and effective public relations and internal communication policy for increasing audit efficiency and impact. Public Relations Division is responsible for functions of prior Public Relations Service including those of adviser for communication with Seimas and adviser for communication with government and non-government organisations.

## Human Resources

By the end of 2008 344 employees were working at the National Audit Office (by 9 more than at the end of 2007). The majority or 59 % of the staff are public auditors (Fig. 2).

**Fig 2 Staff structure of the NAO**



In 2008 the following measures of human resources policy were implemented:

- staff needs criteria set forth;
- staff selection and recruiting system improved;
- staff promotion and motivation system developed.

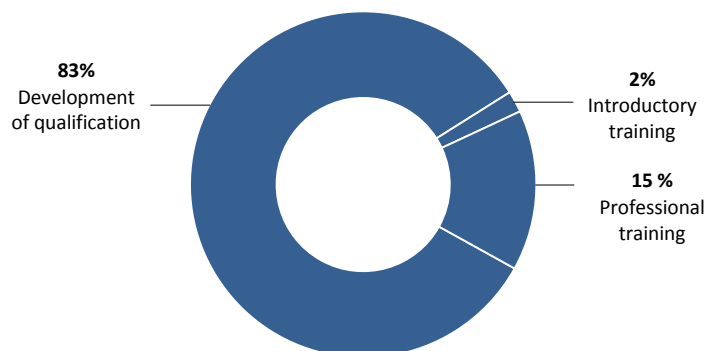
## Developing skills

When strengthening corporate processes the NAO constantly focuses on measures for developing staff skills and training. Activities are analysed, audit methods developed, the quality of audit reports and opinions increased, public auditors' competence developed taking into consideration changing needs, experience of supreme audit institutions of other countries, progress of science and technology.

In 2008 313 employees or 90 % of the NAO staff took part in training. More than LTL 600 thousand were spent for training, 219 training events took place.

The most funds and time was spent for qualification training. During this training auditors and specialists gain skills in management, project management, public speech delivering (Fig. 3).

**Fig 3 Distribution of training funds by types of training in 2008**



In 2008 NAO concluded the implementation of the training project „Development of NAO staff skills in administrating and personal skills areas“. During 2 years 259 employees of the NAO took part in training courses on administrating and personal skills development and foreign languages courses. The total amount spent for the implementation of the project is LTL 1 million (including LTL 430 thousand in 2008).

In 2008 the most attention will be granted to professional training and development of auditors' qualification, especially training on new accounting standards in public sector. For this purpose at the end of 2008 NAO started implementing the training project „Preparation of the public external audit for transition to the accrual based accounting in public sector“, which is funded by the Transition Period Institutional Development Measure. During this training course public auditors will participate in training on accounting and carry out pilot audits at institutions, which started accrual based accounting applying new accounting standards since 2009.

## Development of public audit

Development of public audit and related processes is oriented towards public audit planning, clearness of audit scope and objectives, their relevance to public sector changes, increasing of public audit effectiveness, economy, and efficiency, improving quality of audit reports and opinions.

In order to improve audit approach and to apply international auditing standards in 2008:

- the following parts of the financial audit methodology „Determination of Materiality“ and „Audit sampling“ were reviewed;
- methodological recommendations on information systems audit updated;
- the draft of the new version of the Public Auditing Requirements was started;
- procedures of public audits quality assurance laid down.

In 2008 a new subsystem of audit results accounting was introduced for recording data on audit process and results and generation of various reports on audit results.

In 2009 the following measures are planned in audit methodology and training:

- organising training on application of audit methodology and provide consultancy;
- ensuring methodical and technical guidance in documenting public audits in the TeamMate EWP environment;
- implementing training project on public sector accounting.

## Partnership and co-operation

### Co-operation with Seimas

Seeking to help Seimas in implementing parliamentary control NAO constantly strengthens co-operation with Seimas members, committees, commissions, fractions, and other structural units. Co-operation with Seimas allows increasing the impact of public audit applying tools of parliamentary control to implementation of recommendations delivered in public audit reports.

The NAO strategic partner in Seimas that is the Committee on Audit concluded the work of the first term. During this 4 year period the Committee considered 116 performance and financial (regularity) audit reports.

In 2008 Committee on Audit considered 23 audit reports including 18 performance and 5 financial (regularity) audit reports. Other Seimas committees considered 16 audit reports. Most of the (4 reports) were considered by the Committee on Health Affairs and (3) by the Committee on Social Affairs and Labour.

In 2008 Seimas adopted 4 resolutions related to public audits and other activities implemented by the NAO.

As public audit is one of the elements of the parliamentary control system it motivates us to enhance external audit focusing on theoretical and practical professional development of the NAO staff.

In order to strengthen the independence of public audit in 2008 we drafted amendments of the Law on the State Control and other related regulations. If Seimas adopts the drafted acts the legal framework of the NAO operation shall be developed, external audit shall enhance focusing on theoretical and practical professional development of the NAO staff.

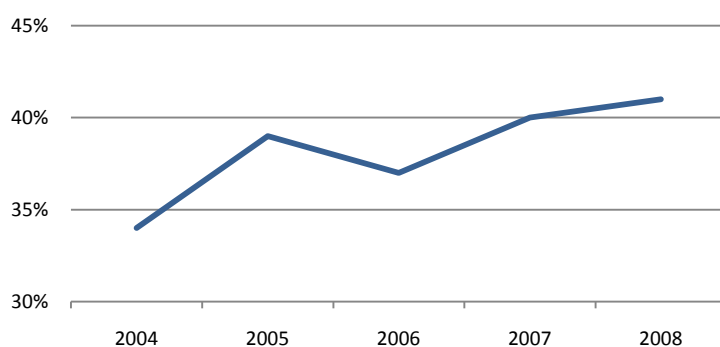
## Public relations

NAO grants significant focus to communication with the public, promotes interest in its work and public audit results. Implementing public relations policy based on publicity and co-operation NAO seeks to consolidate a positive attitude towards itself.

During 2008 97 press releases were prepared and published, 45 radio communications transmitted, 260 media inquiries answered in written or by mouth.

The success of co-operation with media by providing it with clear, interesting, and objective information on NAO activities in 2008 is proved by the increasing public interest in NAO activities in comparison to the previous years (fig. 4).

**Fig 4 Trust rating of the NAO**



Source - Baltjos tyrimai

As usually NAO specialists considered people complaints, applications, and requests, provided answers by e-mail.

All complaints, applications, and requests received in 2008 were replied or forwarded to other institutions of appropriate competence or law enforcement bodies providing applicants with respectful information.

## International co-operation

NAO maintains and develops international relations with supreme audit institutions of other countries, international organizations. One of the most important tasks was proper representation of the NAO in INTOSAI and EUROSAI committees and working groups, participation in working groups of the Contact Committee of supreme audit institutions of EU member states, cooperation with EU institutions.

In 2008 NAO organized the annual meeting of management and representatives of supreme audit institutions of Nordic and Baltic countries and Poland. During this meeting participants exchanged experience in audit quality and performance evaluation, results oriented budgeting issues, discussed assessment of supreme audit institutions performance efficiency and effectiveness, presented the most important audit results of the last year.



Representatives from Danish, Estonian, Latvian, Polish, Lithuanian, Norwegian, Finnish and Swedish supreme audit institutions took part in the annual meeting of management and representatives of supreme audit institutions of Nordic and Baltic countries and Poland.

Heads and delegations of Estonian, Danish, Russian federation, Czech Republic, Swiss, and Macedonian supreme audit institutions visited NAO in 2008. We also organised the visit of the Chairman of the Public Accounts Committee of the UK House of Commons to Lithuania. Last year we organised for the first time a meeting with ambassadors of foreign countries residing in Lithuania on the role of the NAO in auditing EU funds.

## National Audit Office is adviser to municipal controllers' services

Within the competence set forth in laws on the State Control and Local Governments the NAO for the 4th year in the row carries out external reviews of audits conducted by municipal controller's services. It aims at assessing the audit quality assurance policy and procedures, related to audit activities, their effectiveness, at disseminating good practice, identifying training needs, and delivering reliable information on the quality of audits conducted.

In 2008 14 out of 60 services were selected for reviewing. 11 financial (regularity) and 3 performance audits were reviewed. Audit quality policy and procedures were assessed on the level of institution and individual audit. Representatives of services appointed by the Association of Municipal Controllers also took part in reviews.

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Having summarised review results the report on external review of audits conducted by municipal controllers' services was issued and submitted to the Association of Local Governments, municipal controllers. Having identified risks and shortcomings, incompliance with Public Auditing Requirements, it was recommended:

- to initiate the amendment of the part 2 of article 27 of the Law on Local Governments stating that local governments should established services of local governments control and audit with the staff of at least 3 persons in order to ensure the proper quality of audits carried out by services of local government control and audit;
- all audit reports and opinions shall be published on local governments web sites and/or other media in order to ensure the publicity of work carried out by services of local government control and audit and audit impact;
- performance audits shall be planned and conducting in the way implementing provisions of article 27 of the Law on Local Governments: to supervise whether local governments use and manage state property entrusted to local governments, local government budget, funds, and other resources in an economic, efficient, and effective way;
- to plan and to use maximal allowed appropriations for training, focusing on professional training especially planning, performing and reporting on financial (regularity) and performance audits; to ensure the adequate qualification of services of local government control and audit staff; to follow Public Auditing Requirements.

# Promoting Progress in Finance Management

Public audit promoting progress in finance management effectively supports public sector accountability, improvement of internal control and internal audit, management, use and disposal of state institutions' property, accounting and financial statements. When promoting progress in finance management NAO conducts:

- audit of state accounts;
- audit of the EU structural assistance;
- audit of state institutions and local governments;
- evaluation of information systems general control.

## Audit of state accounts

Strengthening of parliamentary control in state accounts and revenue areas implemented by Seimas

In 2008 NAO prepared and delivered to Seimas opinions on:

- account of the execution of the 2007 State Budget;
- 2007 report on public debt and loans given from funds borrowed on behalf of the State and given State guarantees;
- 2007 report on the state-owned property;
- 2009 draft State Budget.

### Opinion on the account of the execution of the 2007 State Budget

In NAO opinion, the account of the execution of the 2007 State Budget states in all material aspects is prepared and delivered to the Seimas meeting requirements of legal acts. It does not contain material misstatements in comparison to accounts of appropriation managers on the implementation of estimates and other data managed by the Ministry of Finance, on which the account is based.

Seimas taking into consideration recommendations of the NAO on the account of the execution of the 2007 State Budget adopted the resolution recommending to the Government:

- to improve strategic planning skills of appropriation managers, to deliver Seimas on annual base summarised information on strategic and other objectives achieved by appropriation managers;
- to review and assess whether tax deductions introduced by the law achieve intended social and economic goals. The Government delivering to the Seimas 2009 draft Law on Adopting State Budget and Municipal Budgets Financial Indicators submitted draft amendments of legal acts suggesting to abandon certain tax deductions;
- to consider possibility of revising provisions of the Law on the Budget Structure regulating the procedure of use of unused funds assigned for special programmes and to set forth that certain part of excessive revenues received by budgetary institutions



- might be used for other budgetary needs;
- taking into consideration the financial situation of the state to consider possibility of abandoning the provision of the Law on the Budget Structure, which makes possible for State Budget appropriation managers to use saved appropriations for acquisition of property;
- funds of Privatisation Fund shall not be used for needs, which could be foreseen when drawing up the State Budget; to give a priority to state investments giving economic return.

### **Opinion on the 2007 report on public debt and loans given from funds borrowed on behalf of the State and given State guarantees**

NAO issued an unqualified opinion on the 2007 report on public debt, which states:

- Government does not have a long-term borrowing management strategy, the optimal level of public debt reflecting Lithuanian economic situation and not risky for fiscal sustainability is not set;
- Ministry of Finance does not ensure the quality of the government borrowing planning, funds borrowed on behalf of the State are not managed effectively, opportunities of using temporarily free State monetary resources are applied not in a full range.

NAO recommended to the Government to adopt a long-term debt management strategy setting optimal level of public debt, which is not risky for fiscal sustainability, and borrowing objectives after balancing the State Budget for fulfilling State liabilities and funding of state investments. Ministry of Finance is advised not to lend State Budget funds to those local governments, which have not repaid previous debts, and to ensure application of sanctions foreseen in contracts of loan.

### **Opinion on the 2007 report on the state-owned property**

Opinion on the 2007 report on the state-owned property states that although it was prepared meeting requirements of legal acts it does not give accurate and true view of financial situation of the state property.

Due to accounting errors and shortcomings auditors could not confirm data provided by state institutions on the balance of managed long-term assets for LTL 741 million, which makes almost 8 % of all long-term assets managed by state institutions and organisations.

Opinion on the 2007 report on the state-owned property was delivered to the Seimas Committee on Audit, which taking into consideration NAO recommendations and seeking wise management of state property, recommended:

- to refresh recommendation on adopting legal acts appointing institutions responsible for designing and implementation of policy of the state property management, use, and disposal;
- the Government to take immediate measures for registering in the Real Estate Register land plots owned by the State; limits of land plots managed by state institutions shall be designated, land plots registered and accounted.

## Opinion on the 2009 draft Law on Adopting State Budget and Municipal Budgets Financial Indicators

NAO delivered the opinion on the 2009 draft Law on Adopting State Budget and Municipal Budgets Financial Indicators recommending the Government to improve the draft:

- taking into consideration too optimistic forecasts of National Budget revenue it was suggested to review forecasts of VAT, income tax, profit tax, and excise collection forecasts, to consider issues of abandoning tax deductions and decreasing State Budget expenses;
- to consider and evaluate the expedience of funding state investment projects granting special attention to projects to be started in 2009, funded not from the EU assistance funds, and not related to law implementation, where cost-effect analysis or other investment evaluation was not carried out and intended social outcomes are not concrete, which do not meet requirements of state investment planning methodology;
- taking into consideration the tightness of situation in global financial markets and more expensive borrowing to review and make more accurate appropriations for debt management costs and to review borrowing needs.

## Audit of the EU structural assistance

Promotion of transparent and effective management and use of the EU assistance.

The aim of mandatory audits of the EU structural assistance is to conduct audits of expenditure accounts of the EU financial assistance as laid down in EU regulations and international agreements following rules set by the EU so that European Commission would have a legal basis for assigning structural assistance to the Republic of Lithuania.

### Implementing functions of certifying body of the EU 2004-2006 structural assistance

NAO when implementing the above function and following the 2008 Annual Audit Programme carried out the following audits:

**Cohesion Fund project No. 2004/LT/16/C/PT/005 „Development of the road corridor in 2004-2005 (Via Baltica)“.** The audit revealed that the managing body has not examined some objects indicated by Commission regulations, has not submitted to the implementing body recommendations concerning financial and administrative inspections. The Internal Audit Division of the Ministry of Communication and Transport developed not comprehensive working papers on expenses eligibility and number of documents for performed work, project objectives, accounting, etc. The implementing body – the Directorate of Transport Investments has not examined the eligibility of costs according to regulation requirement, has not carried out financial, administrative inspections at final beneficiary, has not detected discriminating or other limiting requirements in purchase documents, has not identified errors in construction register records, provided not comprehensive information on works done during the project implementation. Lithuanian Automobile Road Directorate, the final beneficiary has not carried out the preliminary price evaluation, has not included all purchasing documents into the bids assessment report. Evaluation criteria laid down in the instructions for contractors and purchasing documents might have a discriminating effect; in public auditors' and technical supervisor's view technical projects were not prepared properly, commission for technical assessment of project quality was not established. Sufficient dissemination of information was not ensured. Audit detected EUR 35 634 ineligible expenses incurred by setting up a resting parking near the revenue generating body.

**Evaluation of sample checks of the European Community initiative EQUAL mandatory under Art. 10-12 of Commission Regulation No. (EC) 438/2001.** Audit revealed that Internal Audit Service of the Ministry of Social Protection and Labour conducted sample tests in line with the Commission Regulation (EC) No. 438/2001 articles 10–12 except some points. Testing methodology applied for testing EU structural assistance (special, EC EQUAL initiative only) was not developed. Some inaccuracies were detected in the 2006 report submitted to the European Commission, few findings were made on collection of internal audit evidence (assurance on public procurement and audit trail was not obtained). Two recommendations were submitted and already implemented.

**Cohesion Fund project No. 2004/LT/16/C/PT/004 “Development of the Transport Corridor IXD in 2004-2006”.** Audit revealed that administrative technical management of the project was poor, control procedures were applied improperly. Shortcomings in public procurement organisation and implementation detected.

**Cohesion Fund (ISPA) project „Reconstruction of Wastewater Treatment Plant, Rehabilitation and Extension of Sewer and Water Supply Networks in Radviliškis”.** Audit revealed that working places were established in the renovated building of the UAB „Radviliškio vanduo“ administration although Commission decision did not foresee the renovation of the administration building. After audit findings were submitted it was decided to acknowledge part of expenses ( EUR 146 176.66) as ineligible. Auditors found out that eligible expenses shall be decreased by EUR 103 536.91 more. Some physical indicators set in Financial Memorandum and Commission decision were not implemented (not amended in line with legal procedure). Some cases of breaching public procurement requirements were detected. Some goods acquired for project funds were not directly related to the project. Construction works started without proper technical supervision, before the construction licence was issued.

**Evaluation of Management and Control System for European Community Initiative INTERREG IIIA Neighbourhood Programme between Lithuania, Poland, and Kaliningrad Region (Russian Federation) developed in the Republic of Lithuania.** Audit revealed that paying authority (National Fund Department of the Ministry of Finance) in principle implements functions of paying authority set forth by national legal acts and Agreement Memorandum. Functions assigned to the Managing Authority and Joint Technical Secretariat and procedures set in these institutions ensure that control according to article 4 of the Commission Regulation (EC) 438/2001 can be implemented properly except the fact that procedure manuals do not determine and define division of functions and responsibilities among institutions performing inspections; there are no procedures excluding double funding; results of control institutions performing checks on spot (UAB „IDG auditoriai“) are not to be used, etc. Control measures of adequacy and eligibility of documents added to applications were not always conducted properly. There is a risk of timeliness and sufficient scope of sample tests. Auditors delivered few findings on shortcomings of sampling methodology, which were corrected during the audit – the methodology was revised.

**Certification of the EAGGF Guarantee Section Expenditure Accounts for 2006 (Additional Audit Procedures).** Audit revealed that the 15th expenditure declaration and payment application submitted by the Ministry of Finance to the European Commission Directorate on 28 February 2008 was prepared properly. Having assessed the expenditure testing auditors found out that amount of the checked declared eligible expenditure included expenses, certificate on checks on spot of which was prepared during the audit. Checks of declared eligible expenditure under art 4.6 and 4.7 of the SPD were distributed unevenly. The detected irregularities were not investigated as required by the law. Not all recommendations delivered during checks of declared eligible expenditure were implemented, in many cases poor documentation did not provide evidence on the implementation of recommendations. The audit did not find out systematic shortcomings, which could have financial impact.

## Implementing functions of the audit authority for the EU structural assistance for 2007-2013 towards achieving the convergence objective

In 2008 implementing functions of audit authority for the EU structural assistance towards achieving the convergence objective the NAO:

- developed an audit authority part of the 2007-2013 EU structural assistance management and control system description (under art. 21-23 and Annex XII of the Council Regulation (EC) No. 1083/2006);
- developed Audit Strategy for Operational Programmes Implementing the Lithuanian Strategy for the Use of EU Structural Assistance for 2007-2013 for Cohesion Objective developed and approved by the European Commission;
- performed public financial (regularity) audit of the management and control system of Operational Programmes Implementing the Lithuanian Strategy for the Use of EU Structural Assistance for 2007-2013 and of audit of declared to the European Commission in 2007 expenditure.

## Financial (regularity) audit of government institutions and local governments

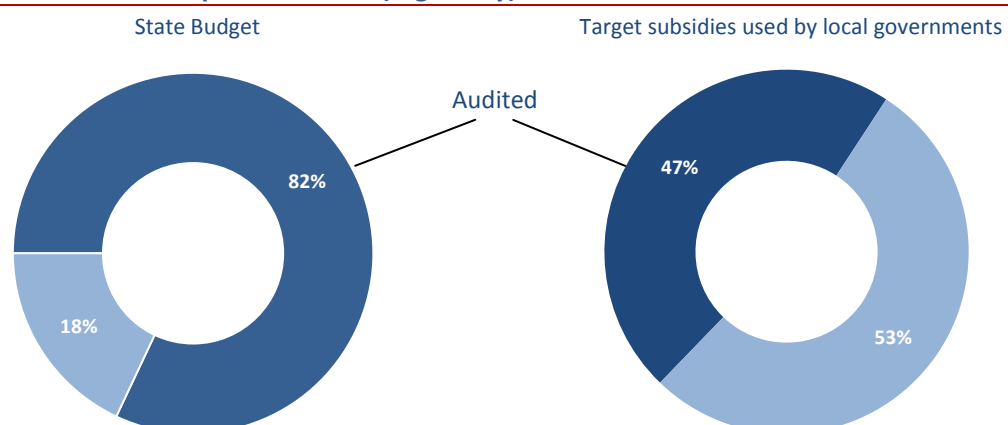
Promotion of progressive finance management and control systems in public sector

Aim of financial (regularity) audit is to assess the internal control of the audited body including finance management; compliance with legal acts of management, use and disposal of property (state or municipal), and to issue independent opinion on financial and other accounts.

In 2008 NAO carried out 102 financial (regularity) audits (of 79 state institutions and 23 local governments) or in 42 % of all government institutions. In comparison to previous year in 2008 the number increased by 19 audited bodies.

LTL 17.2 billion or 82 % of State Budget appropriations used in 2007 were audited. In comparison to the previous year the numbers increased by LTL 2.7 billion. LTL 1.01 billion were audited in local government, which makes 47 % of used special target appropriations (Fig. 5).

**Fig. 5 The scope of financial (regularity) audit**



The increase of audited appropriations was achieved due to the better financial (regularity) audit planning i.e. auditee selection based on materiality.

## Audit opinions

Auditors following the Public Auditing Requirements and having assessed the materiality of irregularities detected by audit may issue the following opinions: unqualified, qualified, adverse opinion or disclaimer of opinion. In 2008 in comparison to the previous year more modified opinions (qualified, adverse opinions and disclaimer of opinion) were issued to government institutions on financial statements and state funds and property management, use and disposal (Table 2).

**Unqualified opinion** in case if auditors have no material remarks concerning financial accounts, accounting system and compliance with legal acts, which could affect audit opinion.

**Qualified opinion** in case if auditors detected irregularities and/or have certain remarks that do not allow issuing unqualified opinion.

**Adverse opinion** in case if irregularities and errors detected, which affect in a material way financial accounts of audited body, regularity of the management, use and disposal of state funds and property.

**Disclaimer of opinion** if auditors cannot obtain sufficient, reliable, and adequate evidence and in case there are significant limitations on auditors' work.

**Table 2 Opinions on financial statements of government institutions and local governments and regularity of the management, use, and disposal of state funds and property**

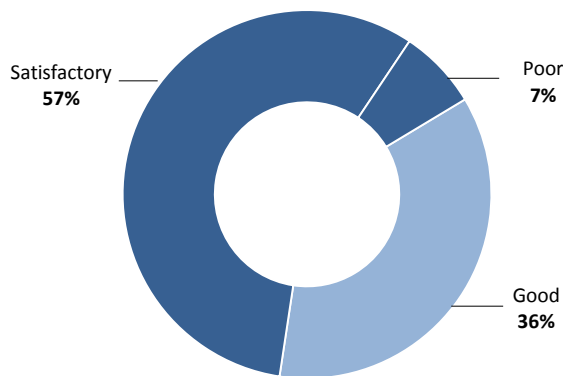
Type of opinion	In 2008 on 2007				In 2007 on 2006			
	financial statements		regularity of the management, use and disposal of state funds and property		financial statements		regularity of the management, use and disposal of state funds and property	
	no.	%	no.	%	no.	%	no.	%
Unqualified	52	51	38	37	45	54	42	51
Qualified	44	43	62	61	35	42	40	48
Adverse	6	6	2	2	2	3	-	-
Disclaimer of opinion	-	-	-	-	1	1	1	1
<b>Total</b>	<b>102</b>	<b>100</b>	<b>102</b>	<b>100</b>	<b>83</b>	<b>100</b>	<b>83</b>	<b>100</b>

Qualified or adverse opinions were issued to almost half of audited bodies (43 % and 6 %) on 2006 financial statements and regularity of the managing, use, and disposal of state funds and property. This demonstrates that in the first case irregularities affecting the audit opinion were detected. In the second case not only irregularities but also material errors, which affected the correctness of financial statements and regularity of the managing, use, and disposal of state funds and property in a material way were detected.

## Assessment of internal control

Regularity of the use of state budget funds and the effectiveness of the use of state property depend on internal control procedures set forth and implemented at audited body. Effective internal control is a prevention measure against errors, irregularities, and fraud seeking to ensure the responsibility of employees for their decisions and actions at managing and using state property, compliance with law and regulations, protection of financial and material assets from loss, abuse or poor management.

Strengthening the internal control is one of ways to improve the finance management transparency and accountability. The assessment of internal control reveals that internal control procedures established and implemented at more than a half (57 %) of audited bodies do not prevent errors and shortcomings in accounting property, proper use of State Budget funds and delivering financial statements (fig. 6).

**Fig. 6 Assessment of internal control at audited bodies**

**Excellent** if internal control meets set requirements and controls tests proved that internal control operates reliably.

**Good** if internal control meets set requirements and tests proved that internal control is reliable with non material exceptions.

**Satisfactory** if internal control meets set requirements or meets with non material exceptions however tests and/or successive substantive procedures did not provide sufficient evidence on internal control effectiveness and consistency.

**Poor** if internal control does not meet set requirements.

As audits results showed internal control at audited bodies is organised inadequately. In order internal control to become effective and well organised it needs additional management actions and proper understanding of internal control by employees. In comparison to 2006 internal control at government institutions and local governments has worsened.

### Irregularities and errors detected

During financial (regularity) audits public auditors detected 852 irregularities. It is by 60 % more than during the previous period.

452 material errors, which could affect public audit opinions, were detected.

The increasing number of irregularities shows that auditees management does not apply sufficient measures that could ensure correct reporting and sound use of State Budget funds.

Following financial (regularity) audit reports 10 statements were issued on material irregularities, which were not eliminated during audits or could not be eliminated due to their nature\*.

### Audit outcomes and impact

Summarised results of financial (regularity) audit showed the most urgent problems of finance management and control systems in the public sector, related to:

- **redistribution of appropriations among programmes and items of economic classification of expenditure.** Audited bodies should look at reasons for redistribution of received appropriations among programmes and items of economic classification of expenditure more closely and legitimize decisions made in a manner established by the law.
- **violation of legal acts in force.** There are still cases when assigned appropriations are used breaching legal acts in force and transactions are accounted without documents grounding expenses or value of assets; services are acquired breaching procedures set forth in the Law on Public Procurement; funding of public (non-profit) entities, which do not implement functions of public administration violates the provisions of the Law on the Budget Structure.

\* Statement means an administrative act setting forth instructions, statements and proposals regarding violations of legal acts committed by an auditee. Statements are issued by Auditor General or Deputies Auditor General on the basis of audit reports.

- **revenue is not transferred to the State Budget.** Not all revenue is transferred to the State Budget. In addition, some bodies illegally use received and not transferred revenue.
- **management, use, and disposal of immovable property.** Not all immovable property managed by entities is registered in the Registry of the Immovable Property; property is transferred by loan-for-use contracts breaching requirements of legal acts.
- **poor planning and use of appropriations.** Public auditors found out that county administrations plan appropriations for next year programmes implemented by social care institutions taking into consideration total expenditure need for the full quota ignoring the fact that after the conclusion of contracts with local governments a part of funds for social services will be received. Part of audited municipal education institutions preferred educational study visits programmes including excursions using money from pupils' baskets, which were assigned for teachers training, etc.

The main reason for issuing more qualified and adverse opinions or disclaimers of opinion is that 58 % of bodies audited in 2008 were not audited during the previous year. In comparison the situation of internal control, detected irregularities and errors at bodies, which were audited for few successive years has improved demonstrating the positive impact of financial (regularity) audit.

Positive impact of financial (regularity) audit on promoting finance management progress maybe demonstrated by the fact that during audits:

- more than half (57 %) of irregularities were eliminated;
- more than half (56 %) of errors detected were corrected;
- recovered\* state property for LTL 36,540.3 thousand;
- recovered to the State Budget LTL 722.1 thousand.

Correction of material errors during audit is a result of proper and timely cooperation of auditors with audited bodies and the most effective way to ensure the regularity of use of State Budget appropriations and sound management, use, and disposal of state property.

## Evaluation of information systems general control

Promotion of the progressive information technology and information systems management and control practice in the public sector

In 2008 two evaluations of information systems (IS) general controls of were conducted:

- **Evaluation of Information System General Control in the State Protected Territory Service.** The audit revealed that the level of maturity of the State Protected Areas Service IS internal control and management following the Capacity Maturity Model shall be assessed as Ad Hoc process. This evaluation means that though the Service admits problems related to IT and acknowledges the necessity to resolve them (the State Cadastre of Protected Areas and data management policy is designed) however the solution does not cover systems used for internal administration. In addition, the safety policy of the State Cadastre of Protected Areas is not implemented, not developed; IT audits are not carried out; training in IT and security areas is not provided. In order to achieve the higher level of maturity auditors recommended reviewing the IT policy, implementing consistent assessment of the policy effectiveness, and developing it on the basis of this assessment.

\* By recording unaccounted property, recovering the irregularly written-off property, correct accounting



- **Evaluation of information system general control in the State Social Insurance Board under the Ministry of Social Security and Labour.** The audit revealed that systematic and comprehensive assessment of IT safety compliance is not carried out in the State Social Insurance Board, not all measures are applied for managing and storing of vital records, administration premises are not sufficiently protected physically thus increasing the risk of computer damage, theft, and illegal access to data. The level of maturity of IS internal control shall be assessed as Ad Hoc process. In order to achieve the higher level of maturity the State Social Insurance Board should improve IS management internal control, develop lacking regulations, strengthen data protection, and ensure the continuity of the IS operation; carry out internal audit or independent assessment of the IS.



# Promotion of result oriented management

When strengthening the efficiency and effectiveness of the public sector management systematic investigation oriented toward positive impact on the state, public and public administration are carried out. In order to promote result oriented management performance audits shall be carried out.

## Performance audit

Promotion of result and public needs oriented public management

The aim of performance audit is to assess the public and internal administration of an audited body from economy, efficiency, and effectiveness point of view and to detect opportunities for performance improvement.

Implementing the 2008 Public Audit Annual Programme 28 audits were concluded, 18 audits started in 2008 and to be concluded in 2009. Taking into consideration Seimas suggestion\* to strive for systematic analysis of audited bodies performance in 2008 we focused on systematic audits of state property management, energy, public economy and market control, environment protection, social protection and labour, healthcare and public administration, information systems.

### State property and finance management

In order to identify inefficient state property and finance management directions and recommend the state how to manage its assets wisely, in 2008 the NAO conducted systematic audits, which found out weaknesses typical not to a single body:

- **provision of services by budgetary institutions.** Audit found out that budgetary institutions deliver various services however the law does not regulate clearly, which services should be charged, which part of money received should be left to a budgetary institution, and what services should be included into a charge list and revenue should be transferred to the State Budget and redistributed. Legal acts do not determine, which costs shall be included when calculating fees, which are not charged by the government. Some budgetary institutions provide services, which are not related to their objectives and tasks.

In auditors' view, legal acts regulating services provided by budgetary institutions should be improved, it must be clearly defined, which services shall be charged and how the fees should be calculated. The charge object shall be defined more clearly. It is necessary to evaluate services provided by budgetary institutions and to take measures that budgetary institutions abandon services, which do not correspond to their functions foreseen in appropriate regulations.

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\* Resolution of the Seimas of the Republic of Lithuania no. X-1568 of 3 June 2008 on the 2007 Annual Report of the National Audit Office

Implementing audit recommendations the part of charged services became free or was abandoned as these services were not characteristic to functions of providing institutions. Part of services was included into a charge list and increases the State Budget revenue.

- **taxation of income.** The audit found out that legal regulation of income taxation of individuals conducting individual activity shall be improved. The different income tax and social insurance rates on income under labour relations and commission contracts motivate taxpayers to conclude commission contracts thus avoiding a part of taxes paid to the state. The fee for business certificates is set differently by each local government, it is not related to economic situation of the region, the scope of activity, place of delivery, revenue and profit received; it establishes unequal business conditions. The audit found out that individuals attempt in various ways to avoid income tax from property sold. Seeking to artificially reduce the income tax assumed donation contracts are concluded between close relatives; sales contracts include lower or higher value than actual income. Tax administrator does not possess comprehensive information on income received from sale in order to control the fulfilment of tax liabilities in a more effective way. Due to legal loopholes and lacking information tax administrators cannot effectively control revenue from gaming. The provision of the Law on Income Tax of Individuals stipulating a possibility to reduce taxed income by certain expenses and to recover a part of a paid tax has significant impact on the National Budget revenue collection.

In auditors' opinion, it is necessary to improve legal acts regulating the taxation of incomes from commission contracts, individual activity, sale of property and gaming winnings. Responsibility and control of property appraisers should be more rigid, requirements for appraising reports for taxation should be set forth, an institution issuing conclusions on such appraisals should be established. Taking into consideration the increasing impact of income tax deductions on the National Budget revenue it would be reasonable to consider the abandoning of such deductions. Payment of income tax should be especially controlled in entities where same employees receive remuneration under commission and labour contracts; the control of individuals who received income from gaming or property sale should be more effective; tax administrators should be entitled to receive more comprehensive information on property sale contracts and incomes.

Since the beginning of 2009 the new amendments of the Law on Income Tax of Individuals came into force providing equal rates for all incomes of individuals. Thus it is no longer reasonable to pay remuneration in other way (e.g. by commission contracts). This will reduce the tax evasion, State Budget will collect more revenue. At the same time tax deductions for mortgage and acquisition of computers and/or internet access will be abandoned. All individuals performing individual activity shall be required to submit tax declarations, which will ensure better income control and more State Budget revenue.

- **use of premises managed in trust and provision with office premises by state institutions.** At the end of 2007 budgetary institutions managed in trust buildings and premises with residual value LTL 4.9 billion. Almost half of this residual value of buildings and premises is made by the value of office premises. As early as in 2007 the Seimas recommended to the Government to assign the formation of general policy of property management to a single institution however this recommendation is not implemented yet.

Audit found out that budgetary institutions lease temporary free premises ineffectively:

some premises are leased twice as cheap as the market price. Legal acts do not stipulate that budgetary institutions should foresee in lease contracts the review the lease prices and additional conditions of early breaking the contract. State funds assigned for acquisition of office premises are used not effectively as provision of office premises is not coordinated; information on the planned need for offices is not stored; there are no long-term plans of provision with offices. Audit found out that budgetary institutions usually choose the easiest way that is the rent of offices however lease contract often stipulate disadvantageous conditions for the state. Budgetary institutions often lay down too high requirements for leased offices (e.g. prestigious or central location), which increase the price of acquisition or lease. There are property management problems also because there is no specific institution for designing and implementing the property management policy and individual property user is not sufficiently competent or does not possess sufficient information to use premises with maximal benefit to the public.

In auditors opinion, it is necessary to draft legal acts on institutions designing and implementing state property management, use, and disposal policy; to assign to the Ministry of environment the coordination of provision of budgetary institutions with offices and to budgetary institutions to assign analysing the conditions of concluded lease contracts and initiating the break or amendment of disadvantageous to the state contracts. Measures ensuring the coordination of distribution of the state owned immovable property shall be stipulated.

## Energy, public economy and market control

In order to ensure effective use of electricity and energy resources, effective control and compliance with regulations of products supplied to the market the NAO conducted in 2008 several audits detecting the following shortcomings:

- **setting electric energy prices.** Audit found out that provisions of the Law on the Electric Energy have crucial impact for unreasonable boost of energy transmission and distribution prices. The fact detected make us doubt about the correctness of calculation of price limits for energy transmission and distribution services; economic validity of pricing. In auditors' opinion, it is necessary to review the Law on Electric Energy in order to prevent significant and frequent fluctuations of price limits for energy transmission and distribution services and other facts detected by the audit.

In October 2008 Seimas initiated the needed amendments of the above law. Having reviewed these articles we hope that the State Prices and Energy Control Commission will be able to set more objective price limits and protect customers against unreasonable price boost. In February 2009 the Government in principle agreed with the draft amendments of the Law on the Electric Energy registered in Seimas.

- **connecting new electric energy users to distribution networks.** Audit found out that enterprises managing electricity distribution networks gain unreasonable profit from customers by setting high connection prices. During the audit the problem was resolved however the issue of pricing the connection to the network on a set rate is still open. Thus the calculated connection charge often was few times higher than 40 % of actual costs. In auditors' opinion it would be reasonable to develop model conditions of energy sale contracts, which would be obligatory for connection contracts with new customers; to strengthen control of operators of distribution networks connecting new customers to their networks.

During the audit the calculation of connection charge on the basis of estimated

construction costs was abandoned. Since 1 September 2008 the charge for new customers is calculated on the basis of prices offered by contractors in open competition, which are very close to actual construction costs. This eliminated the background for setting connection prices higher than 40 % of construction costs.

- **developing innovations.** According to the general innovativeness index Lithuania is one of the falling behind EU member states. Audit revealed that Lithuania has not developed an effective innovation promotion system, a general paper on innovation development is still not prepared. Investment into scientific, experimental, and innovative activity is still too low. Therefore Lithuania's aspiration to increase by 2010 expenditure on scientific research and experimental activity up to 2 % of GDP is very ambitious as in 2005 this expenditure was only 0.76 %. Lithuanian research and education system is not oriented toward the development of entrepreneurship and innovations, measures promoting relations of research and business are not applied widely. It is difficult to link Business Innovation Programme activities with final outcomes.

In auditors' opinion, a possibility of centralising the management of innovations creating and implementation system should be considered. It is necessary to analyse in detail functions of all institutions and organisations participating in innovation creation and implementation system, to develop a paper on innovation policy, foresee additional measures promoting business entities to invest more into research, experimental, and innovative activity.

Following the recommendations submitted in the audit report the Ministry of Economy drafted the 2009-2013 Business Innovation Programme.

- **using PHARE funds for attracting direct foreign investments.** It was planned to spend almost LTL 17 million for developing industrial and commercial infrastructure for attracting „green field“ investors however audit showed that Lithuania was not able to gain maximum benefits from this intervention. Almost one fifth of these funds remained not invested into immovable property therefore LTL 3.2 million shall be returned to the European Commission. Lithuanian Fund for Infrastructure Development did not ensure proper control of immovable property investment projects making preconditions for using a part of funds not as intended. Scope and prices of construction works in several projects made auditors doubt about their validity and effectiveness of targeted subsidy use.

In auditors' opinion, it is necessary to set functions, rights and duties of institutions responsible for further control and use of the subsidy; undertake measures ensuring better control and return of funds invested into immovable property development objects.

On 1 October 2008 the Ministry of Economy, Ministry of Finance and European Investment Fund signed the funding agreement establishing the Controlling Fund. The subsidy funds remaining after the clearance with the European Commission and disposed by the UAB „Lietuvos infrastruktūros plėtros fondas“ will be transferred to the second measure of the Economy Growth Action Plan „Controlling Fund“ as co-financing funds. This measure shall ensure efficient use of subsidy, improve the funding of very small, small and medium business including the starting of business and increasing the productivity of enterprises.

## Environment protection

State of environment is one of the most important factors affecting human social development and ecologic safety. In 2008 audits assessing the implementation of decisions made and use of State Budget funds allocated for this area were carried out. Material shortcomings were detected:

- **organising the handling of communal waste.** Part of local governments, which are the main element in organising the handling of communal waste does not implement the objectives set forth in the State Strategic Plan of Handling Waste. The reason is lack of cooperation with waste owners, poor control of waste owners and operators, lack of clear responsibilities. Insufficient attention to the establishing of the general and consistent waste handling control system.

In auditors' opinion, additional measures shall be undertaken to help local governments delivering public services of waste handling, arranging places for recyclable and bulky waste and communal waste containers. Representatives of the Government in counties should watch more rigidly whether local governments follow the law and implement Government decisions concerning the waste handling.

- **distribution and use of pollution allowances.** Audit found out that functions and responsibilities are not clearly distributed among institutions acting within this system, the procedure of establishing of the departmental register of Greenhouse gas emission allowances is not completed. Procedure of the use of funds received for pollution allowances for reduction of pollution is not set forth. Private companies do not provide information on funds received for pollution allowances sold and their use.

In auditors' opinion, it is necessary to adopt lacking regulations for ensuring the effective functioning of the system, conclude the establishment of the departmental register of Greenhouse gas emission allowances, clarify the procedure of distributing of the reserve for new devices.

The results of the audit were presented at the EUROSAI Working Group on Environment Protection. By the end of 2008 the Law on the Climate Change was drafted. The Minister of Environment approved the regulations on the register of Greenhouse gas emission allowances and Procedure of distribution of pollution allowances for new devices in 2008-2012 and transfer of pollution allowances from commissioned devices to the pollution allowances reserve.

## Social protection and labour

During the reported period the slower economic development raises concerns about situation of people with low incomes, ensuring quality, properly paid and safe employment for each citizen who wants and is capable to work. Assessing the implementation of the policy of labour and social protection in 2008 public auditors detected the following problems:

- **implementing the pension reform in 2004-2007.** Audit results revealed that long-term funding sources of the pension system reform are not clear. Some pension funds operate with loses, pension accumulation companies do not undertake commitments ensuring a certain profitability. Pensions assets administration charges collected by funds do not depend on results of assets management.

Taking into account these facts auditors suggested the obligatory participation of all persons joining the labour market in pension accumulation funds, to abolish the prohibition to change the pension fund. In auditors' opinion, it would be reasonable to link assets administration charges with the effectiveness of assets management.

- **implementing the programme of the Social Housing Fund development.** It was found out that part of persons (families) living in municipal social dwellings do not have to provide local governments information on their property and income therefore they occupy social dwelling without proving their right to do it or do not have such right at all. Some persons, in auditors' opinion even cannot be rated as needy persons. The audit detected cases of breaching law when lodging social dwellings.

In auditors' opinion, it is necessary to draft the amendments of the Law on State Aid for Acquiring or Lodging Housing and Modernising Apartment Buildings.

- **implementing labour exchange policy measures.** Audit stated that there are no long-term measures and criteria for regulating wages, certain provisions of legal acts on employment support, provision of state aid to social enterprises do not form preconditions for effective implementation of labour market measures.

In auditors' opinion, in order to use funds for administration of labour market in a more effective way this process should be improved as well as the structure of labour exchange and its subordinate regional labour exchanges.

- **organising vocational training of unemployed.** Audit found out that some unemployed using measures of vocational training pass courses several times however do not employ themselves after obtaining qualification. There are no effective measures against cases when unemployed refuse to get work in line with an obtained qualification. Current system increases risk of losing motivation to work as money received by unemployed person (unemployment insurance pay and grants) exceed the minimal monthly wage.

In auditors' opinion, it would be reasonable to allow a person seeking for vocational training to choose himself a training establishment for obtaining a desirable profession and labour exchange should cover within a set limit all actual training costs. This should motivate unemployed to look for proper profession and training establishment so that subsequently he/she could find a job.

## Healthcare

The main aim of the healthcare system is healthy person, family and harmonious state therefore it is necessary to ensure quality, safe, effective, accessible, and timely healthcare services meeting needs and expectations of the whole population. Audits conducted in 2008 revealed the following shortcomings:

- **organising emergency medical service (EMS).** Audit revealed that EMS is organised insufficiently, some provisions of regulations do not match each other, are not detailed. EMS conception has no detailed action plan covering all directions of the reform; dispatcher reform and modernisation measures are delayed and not implemented since 2006. There is no planning and training system for EMS personnel; measures for planning and training specialist providing services personally or in team. Ministry of Healthcare used part of funds allocated for acquisition of new EMS vehicles inefficiently.

In auditors' opinion, it is necessary to solve detected problems of dispatcher reorganisation, renovations of vehicle fleet and EMS organisation.

- **organising the system of dental services.** Audit detected that the Ministry of Healthcare does not ensure proper management of the dental services system, funds allocated for the primary dental care are used inefficiently and ineffectively. There is no warranty that dental services will be accessible to all insured persons. In such situation there is an

increasing risk that the objective of decreasing cavity diseases by 10 per cent and caries by 15 per cent by 2010 will not be met.

- **managing the Compulsory Health Insurance Fund (CHIF).** On the basis of audit results it may be stated that funds of the CHIF are planned inefficiently and do not ensure that patients will be treated in the most effective way and will have not to pay additionally for part of services. The State Patient's Fund (SPF) has not conducted in 2007 a comprehensive analysis of accessibility and trends of personal healthcare services therefore in some cases it did not manage to estimate needs of CHIF reserve for improving the accessibility of personal healthcare services. The content (technology of diagnostics and treatment) of some personal healthcare services paid from the CHIF is not defined and set forth basic price does not cover actual costs. The prices of equal specialised consultancy services may differ. Different ways of funding personal healthcare services increase the administration costs of the SPF and healthcare establishments.

In auditors' opinion, it is necessary to develop preconditions for accurate planning of the CHIF budget, improve principles of funding and paying for ambulant services.

## Public administration

Increasing requirements for solving social problems motivate to focus on public sector administration, human resources management, innovations in delivering public services, implementing the e-government. Public audits conducted in 2008 assessed the development of the public administration system and detected the following problems:

- **using special target subsidies for implementation of state functions delegated to local governments.** Audit revealed that these funds (LTL 465 million in 2007) were used ineffectively, part of them were used for other purposes. Control of use of these funds is insufficient.

In auditors' opinion, it is necessary to consider abandoning the practice of funding local governments with unused funds of the State Budget and set forth the guidelines of methodology and accountability estimating needs for State Budget funds by institutions responsible for implementation of state functions delegated to local governments. When implementing audit recommendations the 2009 Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets has already foreseen that in the 4th Q special target subsidies unused for implementing state functions delegated to local governments shall be used only for covering debts of municipal budgets.

- **extreme situations management system.** Audit found out that the decision of establishing a single civil safety and rescue body is not yet implemented, and current system is rather complicated. Bodies acting within this system do not have clearly defined functions, state level coordination in the state of emergency is not distinguished. In auditors' opinion, the Crises Management System Development Programme does not matches the Civil Safety and Rescue System Development Programme and National Security Strategy affecting the uneconomical use of state resources, suboptimal coordination of efforts of bodies acting within this system.

Audit results revealed that it is necessary to establish the general rescue system across the country: to harmonise legal provisions, design and adopt National Plan for Managing Extreme (Crises) Situations, clearly regulate functions and responsibilities of responsible persons.



- **ensuring secure transmission of state data.** Audit found out that the Secure State Data Transmission Network operating since 2004 and established spending LTL 20 million from the State Budget operates ineffectively, not all potential is used, there are no preconditions for decreasing data protection, software and data transmission services acquisition costs of state institutions, the network is not always used as intended, its services are often subject to market competition.

In auditors' opinion, it is necessary to carry out a comprehensive analysis of the state data transmission networks operation and initiate the adoption of new or amendment of existing regulations consolidating the policy (strategy) of the state data transmission networks, which should ensure rational use of state funds for maintenance and development of networks, harmonisation of networks functions, definition of safe networks concept and purpose, set forth legal and organisational principles of networks operation and management.

- **organising and managing gaming.** Auditors stated that Lithuania does not have a clear gaming business policy, the development of gaming business is beyond state control. Audit detected cases when licenses for gaming and lottery organisation were issued breaching regulations in force. Violations of licensed activity are more frequent and one of the reasons is insufficient sanctions for violation of legal acts.

In auditors' opinion, it is necessary to design and implement the policy of gaming including lotteries and betting, which requires the improvement of regulations and consistent, effective regulation of gaming market; to resolve the issue of subordination of the State Gaming Control Commission and the reform of its internal administration structure.

Ministry of Finance has drafted the amendment of the Law on Gaming, which was specified following audit recommendations. In order to establish the state gaming regulation policy and to reduce risks related to gaming Seimas has recorded the draft of additional article of the Law on Gaming. Commission on Reducing the Bureaucratic Burden is going to consider functions fulfilled by the State Gaming Control Commission, the continuation of its operation and its role in the state management system.

## Information systems

- **In 2008 the NAO conducted a systematic audit of e-government development projects funded from the EU structural funds management.** Audit results revealed that there are no national strategic documents on information infrastructure setting forth the technological, information, and activity architecture and ways of its establishment. There is no proper coordination of the information society development infrastructure as current selection and monitoring of projects does not ensure sufficient harmonisation of information society development projects. It increases risk that newly established information infrastructures will not be compatible with currently operating or will duplicate them, and funds allocated for information infrastructure development may be used inefficiently. Part of information society development projects implementers set forth inadequate indicators for project results and implications, the main objective of most projects remains the timely use of funds.

In auditors opinion, it is necessary to develop a single national document on information society and further improve interrelations and structure of bodies coordinating information and communication technology setting forth specific functions and responsibilities of individual institutions. Information Society Development Committee under the Government of the Republic of Lithuania and public enterprise Central Project Management Agency should improve the monitoring of information society development projects. Currently we are following-up the implementation of recommendations.



# Extract from the NAO 2008 financial statements

## Assets and liabilities

**Table 3** NAO assets and liabilities (LTL thousand)

Indicator	31-12-2007	31-12-2008
Long-term tangible assets	15 561.7	16 232.6
Long-term intangible assets	2 027.5	2 116.7
Stocks	250.2	236.3
Short-term assets	1 926.7	1 785.6
Cash	46.7	18.2
Receivables	126.7	17.7
Long-term assets depreciation	7 241.4	7 312.7
Long-term assets fund	10 347.8	11 036.6
Short-term assets fund	1 926.7	1 785.6
Other funds	29.0	13.2
Indebtedness	232.0	480.7

## Use of allocated appropriations

**Table 4** Use of 2008 appropriations allocated to the NAO (LTL thousand)

	Appropriation plan including specification	Used appropriations (costs)
Total appropriations for expenses	28 680.6	27 398.4
including:		
payroll in cash	18 878.3	18 350.3
social insurance payments	5 859.9	5 701.0
goods and services	3 805.9	3 222.6
social pays	136.5	124.5
Total appropriations for acquiring assets	1 391.1	1 148.1
including:		
construction (buildings)	1 391.1	1 148.1
acquisition of long-term assets		
Total appropriations	30 071.7*	28 546.5

\* LTL 1177.5 thousand approved in the 2008 estimate was transferred to 2009 for continuing of the implementation of EU technical assistance special programmes.

# Annexes

## Independent auditor's opinion

**UAB "Tezaurus auditas"**

### **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. The scope of our work on the activity report is limited to examination whether data provided match to data of financial statements and did not cover assessments of management, checking activity plans and forecasts.

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 2008 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, 13 March 2009  
UAB "Tezaurus auditas"  
Certificate of Audit Company No 001211

Director – auditor  
Rimas Butkevičius  
Auditor's certificate No 000036

*/Signature/*

## List of audits conducted in 2008

### Opinions on public accounts

- Opinion on the account of the execution of the State Budget 2007
- Opinion on the reports on public debt, loans granted on behalf of the State and State guarantees of 2007
- Opinion on the report on the State-owned property of 2007
- Opinion on the draft law on approval of financial indicators of the State Budget and municipal budgets of 2009

### Financial audits

#### Audits in Ministries

- Ministry of Finance of the Republic of Lithuania
- Ministry of National Defence of the Republic of Lithuania
- Ministry of Culture of the Republic of Lithuania
- Ministry of Social Security and Labour of the Republic of Lithuania
- Ministry of Health of the Republic of Lithuania
- Ministry of Education and Science of the Republic of Lithuania
- Ministry of Foreign Affairs of the Republic of Lithuania
- Ministry of Economy of the Republic of Lithuania
- Ministry of the Interior of the Republic of Lithuania
- Ministry of Agriculture of the Republic of Lithuania
- Ministry of Transport and Communications

#### Audits of County Governor Administrations

- Alytus County Governor Administration
- Kaunas County Governor Administration
- Klaipėda County Governor Administration
- Marijampolė County Governor Administration
- Panevėžys County Governor Administration
- Šiauliai County Governor Administration
- Tauragė County Governor Administration
- Telšiai County Governor Administration
- Utena County Governor Administration
- Vilnius County Governor Administration
- Summary report on results of Audit conducted in County Governor's Administrations on Property of the Voluntary Society of Assistance to the Army, Aviation, and Navy managed on trust
- Summary report on results of financial (regularity) audit conducted in County Governor Administrations

#### State institutions

- Office of the President
- Office of the Seimas
- Office of Seimas Ombudsmen
- Children's Rights Ombudsman Institution
- Department of Fishery under the Ministry of Agriculture
- Drug Control Department under the Government
- State Food and Veterinary Service

- State Patient Fund under the Ministry of Health
- Lithuanian Road Administration under the Ministry of Transport and Communications
- National Control Commission for Prices and Energy
- Lithuanian Hydrometeorology Service under the Ministry of Environment
- Lithuanian Geological Survey under the Ministry of Environment
- Lithuanian Standardisation Department under the Ministry of Environment
- National Accreditation Bureau under the Ministry of Environment
- State Territorial Planning and Construction Inspectorate under the Ministry of Environment
- European Law Department under the Ministry of Justice of the Republic of Lithuania
- State Patent Bureau
- Police department under the Ministry of Interior
- Public Procurement Office under the Government
- VIP Security Department under the Ministry of Interior
- State Security Department
- Department of National Minorities and Lithuanians Living Abroad under the Government of the Republic of Lithuania
- Secretariat of the International Commission for the Evaluation of the Crimes of the Nazi and Soviet Occupation Regimes in Lithuania
- State Tax Inspectorate under the Ministry of Finance
- Customs Department under the Ministry of Finance
- Information Society Development Committee under the Government of the Republic of Lithuania
- State Science and Studies Foundation
- Lithuanian National Museum
- Lithuanian Art Museum
- Palace of Scientists of Lithuanian Academy of Sciences
- Lithuanian Science Council
- Lithuanian Library for the Blind
- Lithuanian Library of Medicine

#### **Audits of Courts and Law Enforcement Institutions**

- Anykščiai Region District Court
- Ignalina Region District Court
- Švenčionys Region District Court
- Kupiškis Region District Court
- Pakruojis Region District Court
- Rokiškis Region District Court
- Šiauliai County Administration Court

#### **Audits of Science and Studies Institutions**

- Kaunas University of Technology
- Kaunas University of Medicine
- Lithuanian Agriculture University
- Vytautas Magnus University
- Institute of Physical Electronics of the Kaunas University of Technology
- Klaipėda University
- Šiauliai University
- Mykolas Romeris University
- Vilnius Academy of Arts
- Lithuanian Academy of Music and Theatre
- Institute of Lithuanian Language
- Institute of Lithuanian History
- Institute of Chemistry

- Institute of Botany
- Institute for Social Research
- Institute of Geology and Geography
- Institute of Thermal Insulation of the Vilnius Gediminas Technical University
- Institute of Biotechnology

#### **Audits of Appropriations Allocated from the State Budget to Municipalities**

- Vilnius City Municipality
- Anykščiai District Municipality
- Švenčionys District Municipality
- Molėtai District Municipality
- Ignalina District Municipality
- Širvintos District Municipality
- Kaunas City Municipality
- Kėdainiai District Municipality
- Kaunas District Municipality
- Marijampolė Municipality
- Alytus District Municipality
- Birštonas Municipality
- Jonava District Municipality
- Klaipėda District Municipality
- Kretinga District Municipality
- Skuodas District Municipality
- Neringa Municipality
- Panevėžys City Municipality
- Rokiškis District Municipality
- Kupiškis District Municipality
- Pasvalys District Municipality
- Akmenė District Municipality
- Pakruojis District Municipality
- Summary report on results of financial (regularity) audit in municipalities

#### **Performance audits**

- Implementation of Labour Market Policy Measures
- Activities of the State Patient Fund
- Dental Care System
- Evaluation of Allocation and Trading Scheme of Greenhouse Gas Emission Allowances
- Innovation Development in Lithuania
- Implementation of 2004-2010 programme of biofuel production and use promotion
- Evaluation of State Budget funds allocated to performance of some State functions (devolved to municipalities)
- Evaluation of the Development Programme of the Social Housing Fund and the Use of the Social Housing
- Organization of management of emergency situations
- Activities of the State Gaming Control Commission
- National Anti-Corruption Programme
- Bodies and Organizations Falling under Regulation Scope of the Ministry of the Interior
- Coordination and Management of inter-institutional programmes
- Education System Reform
- Organisation of Aged Persons Care
- Social Insurance System Reform

- Organization of the emergency medical care
- Connecting new users to the operating entities of energy companies
- Validity of increase in electricity prices
- Communal waste management
- Use of office premises managed in trust by state institutions and organisations and provision with office premises
- Regularity and efficiency of funds invested in real estate development objects
- Activities of Secure National Data Transmission Network Operator
- Taxation on personal income
- Management of European Union financial assistance in 2004-2007
- Evaluation of implementation of the special programme of European Regional Development Fund
- Management of Information Society Development Projects Financed by Funds of European Union Structural Funds

### European Union audits

- On Cohesion Fund Project No 2004/LT/16/C/PT/005 Development of I Transport Corridor (Via Baltica) in 2004-2005
- On Cohesion Fund project No. 2004/LT/16/C/PT/004 Development of the Transport Corridor IXD in 2004-2006
- Evaluation of sample checks of the European Community initiative EQUAL mandatory under Art. 10-12 of Commission Regulation No. (EC) 438/2001
- On Cohesion Fund (ISPA) project No 2002/LT/16/P/PE/013 Reconstruction of Wastewater Treatment Plant, Rehabilitation and Extension of Sewer and Water Supply Networks in Radviliškis
- Evaluation of Management and Control System for European Community Initiative INTERREG IIIA Neighbourhood Programme between Lithuania, Poland, and Kaliningrad Region (Russian Federation) developed in the Republic of Lithuania Public Audit Report on Certification of the EAGGF Guarantee Section Expenditure Accounts for 2006 (Additional Audit Procedures)
- Public Audit on 2007 Expenditure and Functioning of Management and Control System of Operational Programmes Implementing the Lithuanian Strategy for use of 2007-2013 EU Structural Assistance under the Convergence Objective

### Evaluations of Information Systems General Control

- Evaluation of information system general control in the State Social Insurance Board under the Ministry of Social Security and Labour
- Evaluation of Information System General Control in the State Protected Territory Service