



SIGMA

Support for Improvement in Governance and Management

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SIGMA Peer Assistance Review

of the

Lithuanian National Audit Office

SIGMA Summary Report

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TABLE OF CONTENTS

SIGMA SUMMARY REPORT	3
1.1 Introduction.....	3
1.2 Objectives of the Peer Assistance	3
1.3 Summary of Peers Findings	3
1.4 The Development of the LNAO.....	5
1.5 Background to the Peer Assistance	6
1.6 Criteria and methods	6
1.7 Acknowledgements	7

SIGMA SUMMARY REPORT

1.1 Introduction

1. In mid 2005 the Auditor General of the Lithuanian State Control (now known as the Lithuanian National Audit Office (the LNAO)) requested that SIGMA work with them again and carry out a second peer assistance review of the Supreme Audit Institution. The first Peer Review was carried out by SIGMA in 2000, with SIGMA Peers from National Audit Office of Denmark, the European Court of Auditors, and the French Cour des Comptes. The results of this Peer Review were well received and led to a comprehensive development programme based on the preparation of a well defined Strategic Development Plan (SDP). The UK NAO with other SAI partners, e.g. from the Sweden and Denmark, were then engaged as the main technical assistance partners during 2002-2005 through the EC PHARE funded twinning programme. The twinning was in two phases and covered four main areas: audits, organisation and management, information and communication. The outcome of this programme was appreciated by the LNAO and it is readily apparent to the SIGMA Peers that the LNAO has managed these activities well and derived benefit from them as part of their institutional building efforts. The Peers consider the LNAO is now a modern and functioning SAI, and not as it was at the time of the first peer assistance review – a government control and investigation organisation.

2. During the dialogue with SIGMA, when preparing for this Peer Review, it became quite clear that whilst the LNAO has now reached a very good level of professional and technical development and operates to EU benchmarks it required further motivation and suggestions to move beyond this level and towards the very good practices and standards for its work. SIGMA specialist advice and recommendations were therefore needed to focus on further improvements to financial and performance audit quality and standards, and on the operational and functional effectiveness of the LNAO and the public accountability system of Lithuania. The importance of the role of the LNAO in providing assurance and advice to the public and Parliament on whether the Government has provided good and honest stewardship and effective management of state resources; and value for money in the delivery of its programmes is very important indeed.

1.2 Objectives of the Peer Assistance

3. The main objective of the Peer Assistance is to help the LNAO make sensible decisions about how to make themselves operate and perform better in the future. The aim is to make the LNAO fit for its purpose of ensuring public sector accountability by providing high quality audit reports and other output, in order to help ensure better and more cost effective public service delivery.

1.3 Summary of Peers Findings

4. The main findings of the review may be summarised as:

- In the period since the last peer review in 2000 the LNAO has become a modern SAI and has developed more modern and effective audit approaches for performance and financial audit.

- The current legal base has served its purpose through the developing and transitional phase of the LNAO. New legislation is needed to strengthen the independence of the LNAO and the Auditor General in several key areas: financial and operational, EU audits, and a longer single term of office for the Auditor General. A more effective and comprehensive mandate for financial audits of public sector bodies is required. The functions of the Auditor general and the Deputy Auditors General should be more clearly set out, including those relating to the Auditor general's approval and authorisation of the LNAOs published reports.
- The extent of progress made by the LNAO in adopting and applying modern and professional financial audit practices has been exemplary, especially in view of the high regularity and political constraints that previously affected public accountability in Lithuania. Everyone in the LNAO, and especially those involved in the pilot audits, deserves considerable praise for their commitment to this change process. However, the real challenge facing the LNAO is to build on this experience and fully develop its potential to become a leading public sector audit body. In that context, there remains a number of constraints affecting its continuing professional development and effectiveness, and the Peers have made a number of recommendations to address these and other issues affecting the financial audit process.
- A key part of the professionalisation of the financial audit process will be to professionalise the technical audit training of financial auditors to the best standards available in Lithuania. This means being able to participate fully in the certifying process of the Lithuanian Chamber of Auditors. It may be necessary to change existing Laws to enable the LNAO to fully train professional audit staff.
- A significant financial audit issue identified concerns the legal framework governing the preparation and audit of public sector accounts, which needs to be further clarified in order to improve both public accountability to Parliament and the efficiency by which audits are carried out. In particular, the Peers recommend that changes to existing legislation include the adoption of the entity concept as a basis for financial reporting and accountability, and that as part of the review of legislation, specific consideration is given to rationalising the number of public sector accounts that require to be audited.
- The overall view of the Peers is that the quality of performance audit reports produced by the LNAO has improved immensely in a relatively short period of time, and that the LNAO has moved quickly in the direction of carrying out quality performance audit examinations;
- To make high quality performance audit examinations is a difficult task and there is still room for improvement in the practice of the LNAO. The Peers find that there are two areas where the LNAO should focus their initiatives in the short term. Firstly, the LNAO should focus on recommendations to a higher degree, which will create a solid base for the improvement of public governance and for conducting efficiency and effectiveness analysis in the future. Secondly, the LNAO should focus the content of their reports towards material issues that will have impact on the better delivery of services and good governance.
- The LNAO needs to anticipate that it has moved from a predominantly developmental environment to a performing office environment. This will greatly affect the strategy of the LNAO for the future.

- The strategic focus for the next five years should be on developing the quality and usefulness and impact of the audit reports.
- There is a need to develop the working arrangements of the top management team. More work needs to be done to further enhance the capability and capacity of all managers in the LNAO to the very highest levels. The management of resources and audits needs to be further developed, with particular attention to the development of better resources management systems and time recording procedures
- The LNAO needs to address the need for an IT Audit capacity and ICT strategy, and to implement such a strategy effectively. Budget constraints will need to be overcome in order to further develop this area rapidly and effectively.
- Developing sound and business like relations with the new Parliamentary Audit Committee is very important. A good start has been made and needs to be maintained by further developing the effective operation of the Committee. The relations between the LNAO and the Committee also need to be further developed and strengthened within both the Parliament and the LNAO's needs for independence.

1.4 The Development of the LNAO

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

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

7. Hand in hand with the new developments in the state financial management goes increased expectation that the LNAO should add value with its audit and also be capable of giving assurance and audit comments and recommendations to all stakeholders in the state accountability system. Another major step in enhancing the accountability structure for the public sector audit was taken in 2005 when a separate Audit Committee was established at the Seimas to deal with the activities and reports of the LNAO.

1.5 Background to the Peer Assistance

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

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

10. SIGMA engaged very senior and experienced auditors from Denmark, Ireland, Scotland and Germany¹. They performed their assignment under the guidance of Nick Treen, Senior Advisor, SIGMA. Besides the field work carried out the Peers held meetings at OECD in Paris before and after the field missions for planning and reporting coordination. The outcomes of this review are presented in the paper - the Detailed Report of the Peers. It gives many comments and recommendations based on the Peers' experiences, analysis and knowledge, and the detailed discussions held with the Lithuanian Peers, for the LNAO to consider.

1.6 Criteria and methods

11. The criteria used by SIGMA and the Peers for assessing the LNAO present state of performance derive from the INTOSAI Auditing Standards and related Guidelines. Additionally, for the Financial Audit, the standards and guidance issued by the International Federation of Accountants (IFAC²) have also been used. However, due to the present level of development in the LNAO, other forms of "good practice" for the public sector have also been applied – especially those that relate to the EU and have been agreed by the EU SAI Contact Committee. The review was based on a combination of document review and interviews with the audit staff at all levels as well as detailed and intensive dialogue with the LNAO management. A sample of both Financial Audit and Performance Audit planning documents, internal approval processes and reports were analysed in order to obtain a better understanding of the quality of recent audit work. The Peers also held discussions with representatives of the major stakeholders such as the Seimas Audit Committee which deals with the LNAO's reports, as well as senior officials at the Ministry of Finance and a number of Ministries to obtain an auditee and client perspective. The Peers also spoke to representatives of government Internal Audit Units, and found particularly helpful and useful discussions held with the Ministry of Finance Central Harmonisation Unit. Auditing professional bodies in Lithuania were also a good source of advice and information for the SIGMA Peers.

12. It is evident that the LNAO has made significant progress in moving towards becoming a modern and effective Supreme Audit Institution in a relatively short time. The Peers are aware that the Lithuanian Public Sector in general is still in a period of significant change following EU accession, many of which will impact on the LNAO. Therefore it is perhaps more opportune than ever to pursue those developments

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2. <http://www.ifac.org>

in the way audits are planned and carried out which will pay dividends for all interested parties in later years. Achieving this will undoubtedly require some fundamental thinking through of priorities, audit approach, appropriate resource levels and allocations, and a period of stability as well as the commitment of Parliament to support and help in developing the LNAO and public accountability to the very best European and international standards and practice. The Peers consider this to be a very realistic aim, and well within the competencies and capabilities of the LNAO.

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

1.7 Acknowledgements

14. SIGMA and the Peers want to express their gratitude to the Peers of the LNAO who so actively and professionally contributed to the Review - Auditor General Rasa Budbergyte, her two Deputy Auditor Generals Viktoras Svedas and Arunas Juozulynas, and the LNAO Directors, other senior auditors and staff. This is especially relevant to the main speaking partners and the organisers of the review LNAO Director of International Relations Dainora Venkeviciene and her assistant Aldona Puteikiene. They have the grateful thanks of the SIGMA Peers for their knowledge and understanding of the LNAO and their commitment and effort to making the peer assistance review a useful and helpful process. The Peers are particularly thankful to Dainora Venkeviciene for her work with us on proposals for a new LNAO Law. All the staff at the LNAO gave the SIGMA Peers much time and provided much interesting and stimulating discussions during the Peer Review. Without their knowledge and open attitude to discussing possibilities as well as problems this Peer Review would not have been possible to carry out so well. Many thanks also go to the expert team of interpreters and translators³.

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