

**NATIONAL AUDIT OFFICE OF THE
REPUBLIC OF LITHUANIA**

ANNUAL REPORT 2004

VILNIUS

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SUMMARY

This Report is prepared pursuant to the Statute of the Seimas of the Republic of Lithuania and is meant to explain to the Seimas the performance results of the National Audit Office of Lithuania (NAOL) and to report on the used State budget appropriations allocated to the NAOL. National Audit Office of Lithuania is accountable to the Seimas.

In 2004 the National Audit Office of Lithuania performed 113 financial audits of institutions managed by appropriations managers, 37 performance audits carried out by Performance Audit Departments, 3 audits of the European Union financial assistance, and 4 audits of public accounts. On the basis of the performed audits the NAOL drafted and submitted to the Seimas 4 mandatory opinions: opinion on the account of the execution of the 2003 State budget, opinion on the Government report on 2003 public debt, opinion on the report about State-owned property in 2003, and opinion on the draft State budget 2005.

Some of performance audits are worth mentioning: Evaluation of performance of the Bank of Lithuania, 2003 public debt reports, Evaluation of public debt management, property liabilities undertaken by the State, and recovery of public debts, Evaluation of child custody organization, Evaluation of implementation of programme „Information Provision for the Society“, Evaluation of the environment monitoring system development, Evaluation of implementation of the Helsinki Convention provisions on the protection of the marine environment of the Baltic sea basin, Evaluation of implementation of the 2002-2004 State programme „Safe Traffic in Motorways“, Evaluation of the use of the reserve territories for expansion of the Klaipėda State Seaport, Evaluation of the use of privatization funds, Evaluation of rural support programme, Evaluation of the use of public funds allocated to the Chamber of Agriculture.

Financial audits started in 2003 and finished in 2004 covered 78.8 per cent of the 2003 State budget expenditure, i.e., over 8.5 billion Lit. Audits started in 2004 covered 10.12 billion Lit., or 79.9 per cent of the State budget appropriations allocated in 2004.

In 2004 the National Audit Office submitted proposals and comments to respective institutions on draft legal acts, including: Code of Administrative Offenses, Law on Budgetary Institutions, Law on Management, Use and Disposal of the State and Municipal Property, Law on Confirmation of Financial Indicators of the State Budget and Municipal Budgets, Law on National Conscription.

71.8 per cent of 2004 public audit recommendations, date of implementation of which is expired, are implemented and 20.9 per cent are partly implemented. Out of all 2004 recommendations until the end of the year 48.7 per cent were fully implemented, it is 3.7 per cent more than during the previous year. 14.1 per cent were partly implemented, it is 1.1 per cent more.

In 2004 quality of decisions of the Auditor General (Deputy Auditors General) improved. During the year 2004 two decisions were appealed against, but the Court upheld both.

At the end of 2004 number of employees of the NAOL was 332.

During the last year the National Audit Office developed internal competences and improved personnel training system.

More than 90 per cent of the NAOL officers participated in the continuous professional financial and performance audit training organized in 2004, and all of the senior managers improved their skills and completed the training programme for leaders of organizations „Olymp“ in the Lithuanian Institute of Public Administration

In 2004 second PHARE Twinning project was continued, during which the staff developed their audit and institutional management skills. The first Twinning project was highly appreciated by the European Commission Delegation to Lithuania and all of the partners of the project. Commission Delegation which was responsible for supervision of the PHARE programme in Lithuania assessed the first Twinning project as the model project (the leader project).

All of this determined that work results of the National Audit Office are required and used. A survey of the Seimas members conducted in July 2004 revealed that over 52 per cent of the respondents read public audit reports presented by the NAOL “always” or “often”. 87.5 per cent think that public audit reports of the National Audit Office help in their work as the Seimas members. The same percentage (87.5 per cent) of respondents consider that the NAOL contributes efficiently to ensuring of accountability in the public sector.

Survey of the public institutions carried out in January–February 2005 discovered that even 91 per cent of heads of public institutions, chief accountants and internal auditors used reports of the National Audit Office and work of public auditors as a source of information in 2004. Heads of public institutions, chief accountants and internal auditors pointed out that in 2004 public audits contributed most efficiently to improvement of the following areas: internal control and internal audit of public entities (93 per cent), property management, use and disposal (86.5 per cent), development of accounting and financial statements (85 per cent).

Herewith we present the National Audit Office Annual Report for 2004.

1. THE ROLE OF THE NATIONAL AUDIT OFFICE OF LITHUANIA AND THE MAIN PRINCIPLES OF ACTIVITY

Constitution of the Republic of Lithuania Article 134:

National Audit Office shall supervise the legality of the management and utilisation of State property and the realisation of the State budget.

Mission –

To help the Nation manage and use property, funds and other resources wisely

Vision –

To assist the Seimas in execution of parliamentary control, to promote the highest standards in financial management in public sector, to promote efficient public services

Values:

Professional Development

Impartiality

Integrity

Objectivity

Independence

Team Work

Responsibility

Users

Firstly, outcomes of the National Audit Office of Lithuania are meant for the citizens, the Seimas and the audited entities.

After the Law on the State Control was changed in the second half of 2003, the National Audit Office was delegated with two new significant areas: first, winding-up and certification audits of the European Union financial assistance, and, second, audits of the State budget funds allocated to municipalities and methodological support for municipality controllers and external review of their work. Therefore in 2004 with the development of these audits two new users of the National Audit Office's work results became increasingly important – it is the European Commission and municipalities.

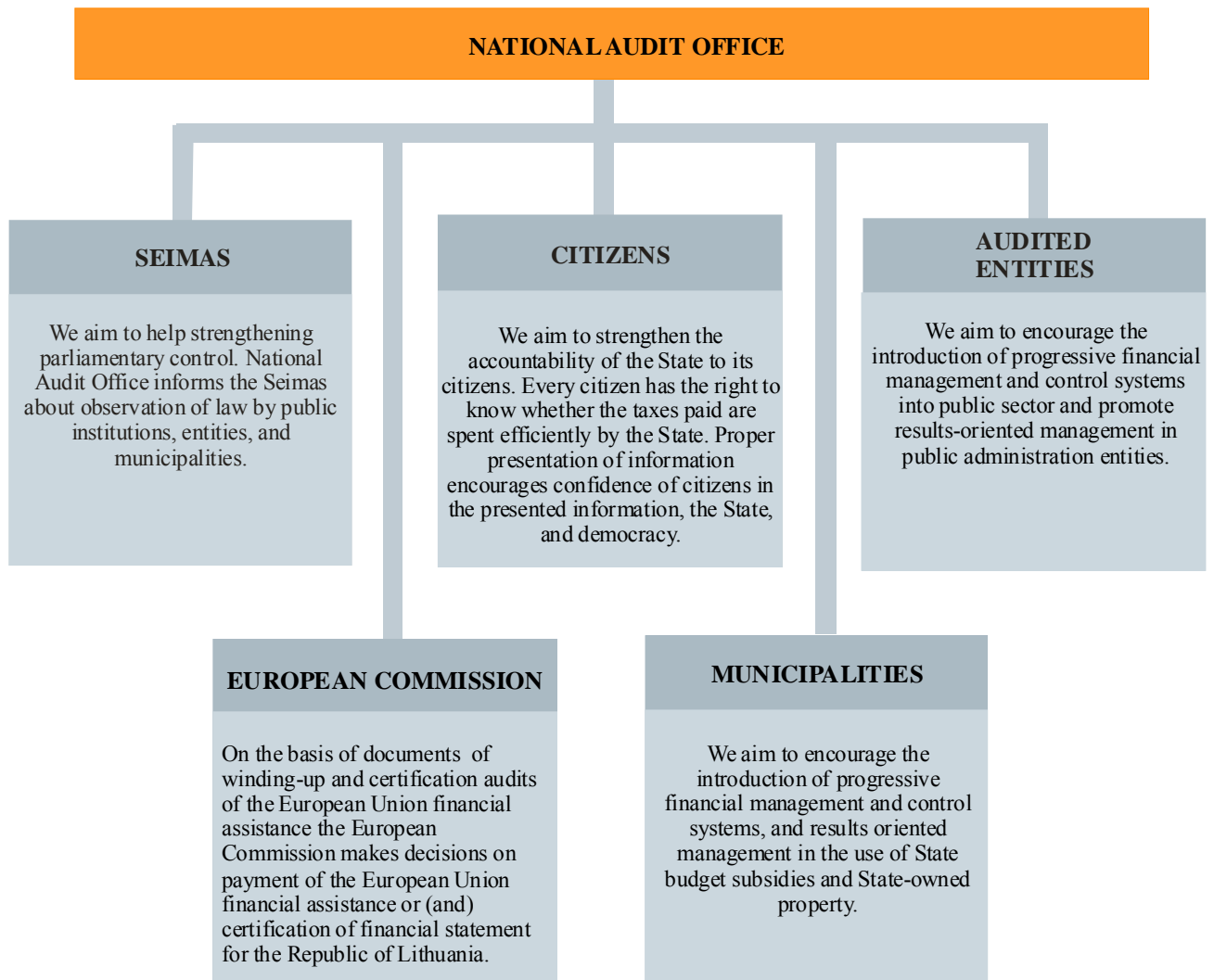


Figure 1. Main users of the National Audit Office work results

Tools

The main tool for achieving the aim used by the National Audit Office is public audit.

Scope of public audit is wider than the former revisions and inspections. The Law on the National Audit Office stipulates for two types of audit: financial and performance audit.

It should be noted that financial audit scope of the NAOL is often far wider than that of private auditors. Financial audit results not only in issuing the opinion on financial statement, but also in evaluation of internal control of the audited body. Financial audit includes examination of budget drafting and implementation process, internal control, financial management, and accounting system, evaluation of regularity of the audited body's contracts concluded and decisions related to property management, use and disposal.

Performance audit encourages audited entities to focus on economy, efficiency and effectiveness of performance. Auditee receives recommendations on improvement of their performance, which would allow them to save funds and decrease expenditure, improve quality of services, strengthen management, administration and organizational

processes, and to seek their aims. Performance audit is the tool which helps in looking for new solutions on how to use better the existing resources and achieve better results. It is an activity which is based upon co-operation, and promotion of innovation and initiatives.

Audited entities and public audit areas

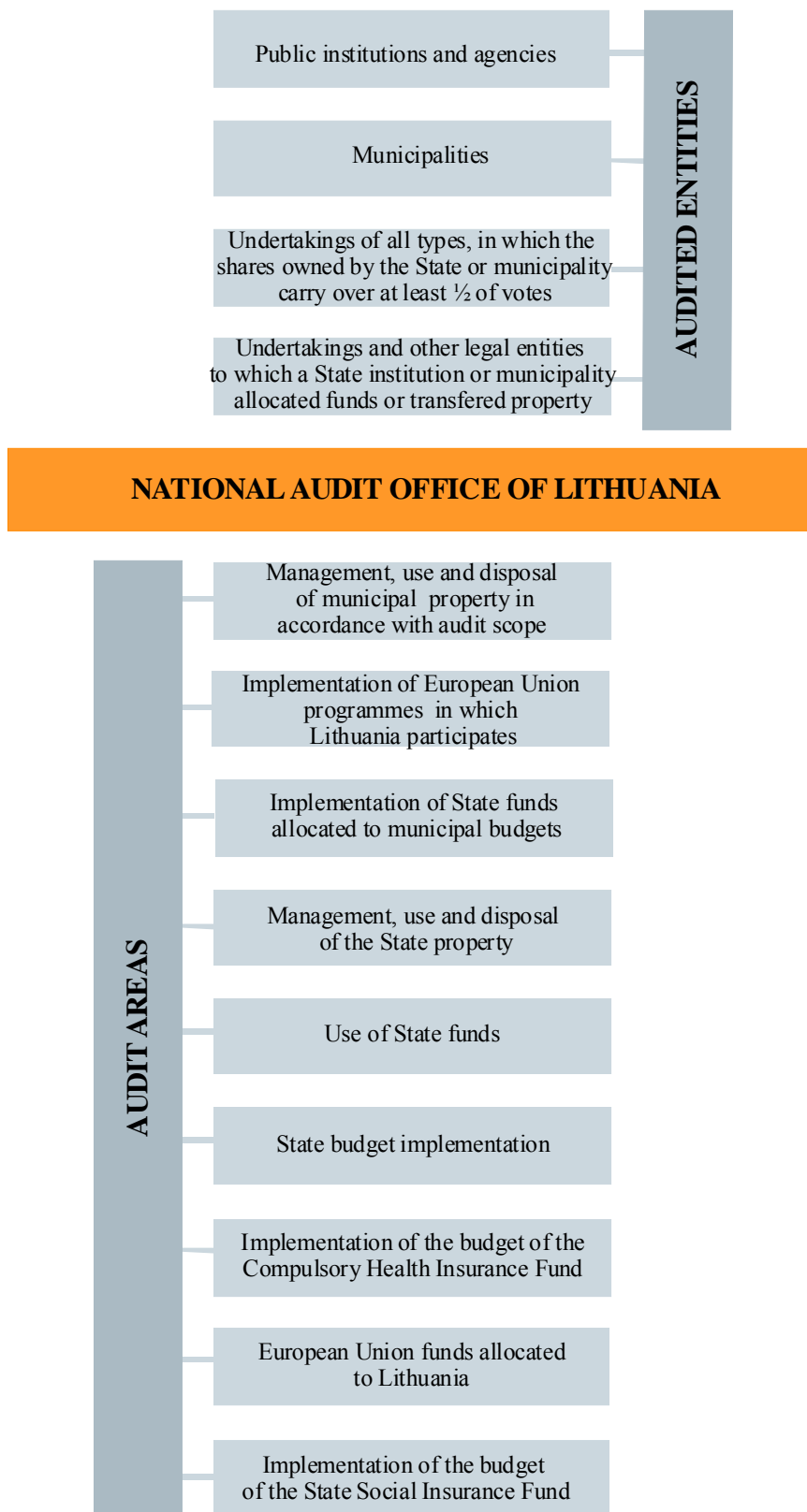


Figure 2. Main audited entities of the National Audit Office and audit areas

2. AUDIT OF THE EUROPEAN UNION FINANCIAL ASSISTANCE

Having evaluated financial and human resources potential of the National Audit Office and peculiarities of organizations formed in Lithuania, the NAOL was assigned the winding-up and certification audit function established in the European Council and Commission regulations and international treaties.

Seimas by its resolution elaborated on forms of presentation of audit results. Documents of the following audits of the European Union financial assistance performed by the National Audit Office have to be submitted to the respective institutions:

- Audit reports and opinions of winding-up audit of the European Union structural funds programmes,
- Audit reports and opinions of winding-up audit of Community Initiatives (INTERREG IIIA, EQUAL) programmes,
- Audit reports and opinions of winding-up audit of Cohesion fund (ISPA) measures,
- Audit reports and opinions of annual certification audits of SAPARD programme,
- Audit reports and opinions of annual certification audits of European Agricultural Guidance and Guarantee Fund Guarantee Section.

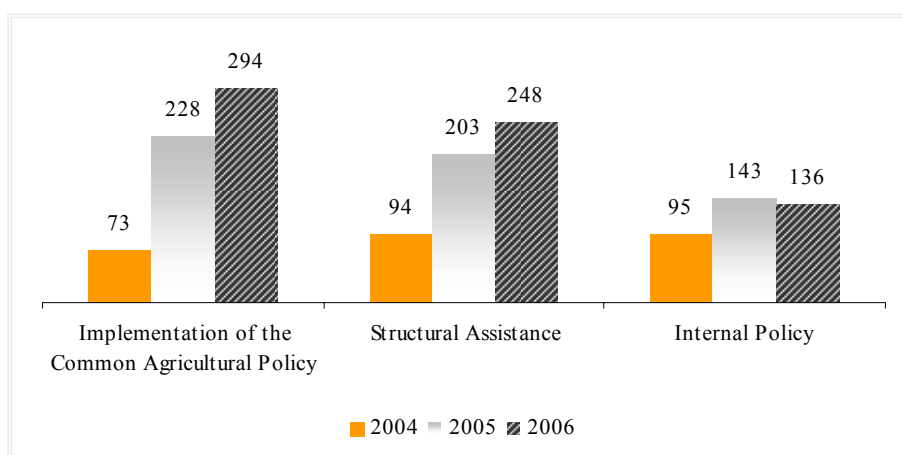


Figure 3. European Union's commitments for payment of financial assistance to the Republic of Lithuania, million Euros.

It should be stressed that all the above mentioned audit documents are mandatory and necessary for the decisions of the European Commission on payment of the European Union assistance funds and (or) certification of financial statements.

National Audit Office of Lithuania is one of the few Supreme Audit Institutions in the European Union which performs such a function.

Shown below is the diagram of levels of control of the European Union structural assistance and the place of the National Audit Office in this diagram.

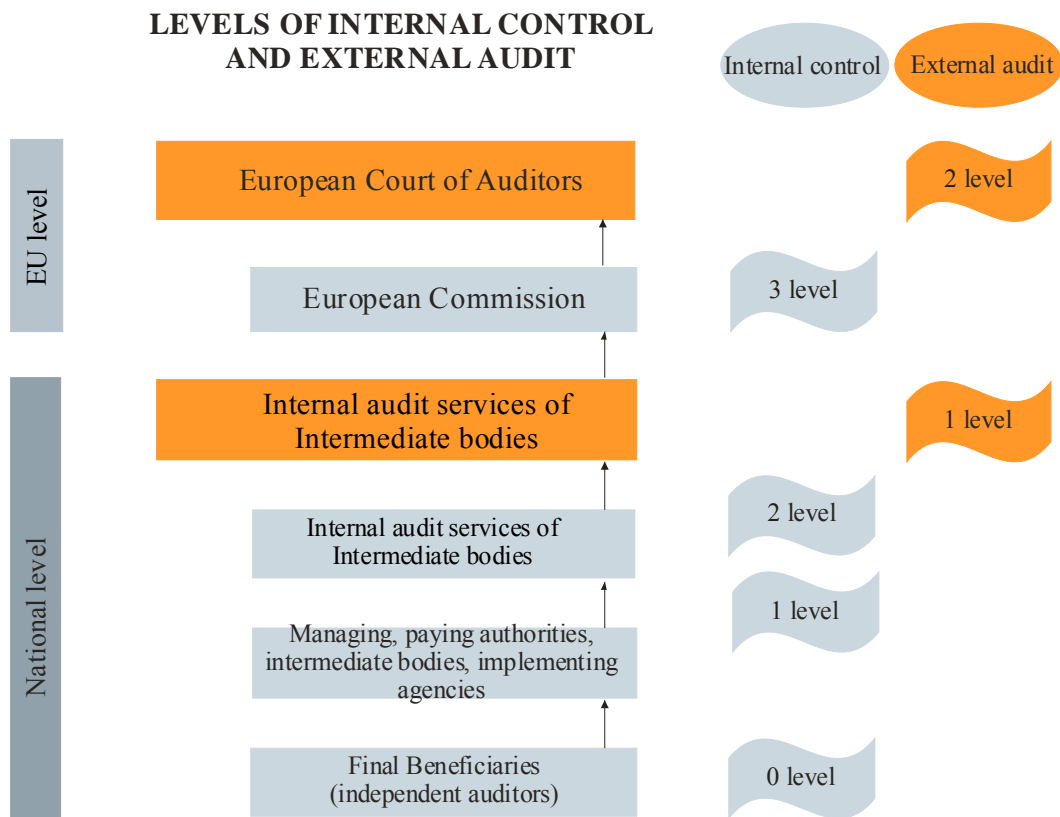


Figure 4. Diagram of levels of control of the European Union structural assistance and the place of the National Audit Office in this diagram¹

It is worth to emphasize that the National Audit Office seeks not only to submit its opinion on efficiency of the operating administration and control system of the European Union financial assistance and on purposefulness and legality of utilization of the assistance funds to the European Commission, but also to encourage the legal and proper utilization of the assistance by giving recommendations to administering institutions of the European Union financial assistance. Recommendations of the National Audit Office aim to develop management and control systems of the European Union financial assistance and to encourage introduction of sound financial management principles in the public sector.

One of the main obligations for control of structural assistance set in the European Union regulations is sample checks on operations: system audit and sample checks on operations which cover 5-15 per cent of the total eligible expenditure. In Lithuania this function is performed by internal audit units of intermediate bodies, i.e., the second level of internal control according to the division in the scheme above. The National Audit Office pays and will pay

¹ Explanations:

Functions of the *Managing Authority* are performed by the Ministry of Finance.

Functions of the *Paying Authority* are performed by the National Fund Department of the Ministry of Finance.

Functions of the *Intermediate Bodies* are performed by: Ministries of Environment, Transport and Communications, Economy, Social Security and Labour, Education and Science, Health, Agriculture, and Information Society Development Committee under the Government of the Republic of Lithuania.

Functions of *Implementing Agencies* are performed by: National Paying Agency, Transport Investment Directorate, Environmental Projects Management Agency, Central Project Management Agency, Lithuanian Business Support Agency, Support Foundation European Social Fund Agency.

great attention to quality of internal audit, because the scope of activities of the National Audit Office and even the winding-up declaration will depend on performance of this function. In 2004 during the Twinning Project in the National Audit Office meetings, general training and consultations were organized for specialists of the Ministry of Finance (coordinators of internal control function) as well as for internal auditors of the intermediate institutions (executives of sample checks on operations).

Great attention is paid to implementation of the Single Programming Document and control of utilization of the funds related to it. Since it is the long-term investment programme, the National Audit Office has worked out the long-term audit strategy for its evaluation which covers:

- Evaluation of the management and control system of Structural Funds;
- System audit (horizontal):
 - Evaluation of internal audit function.
 - Evaluation of system audit and 5 per cent expenditure audit carried out by internal auditors.
 - Evaluation of procurement (in terms of efficiency).
 - Evaluation of Information Technologies.
 - Other (evaluation of accounting systems, payments, bids, selection of projects, requests).
- Systems audit (vertical):
 - Evaluation of audit trail.
 - Annual evaluation of bids for payment to the European Commission.
 - Evaluation of implementation of recommendations.
 - Other activities.

In 2004 the National Audit Office continued further audits of the SAPARD programme and the Cohesion Fund (ISPA) projects.

Besides, in 2004 the National Audit Office started certification audit of statement of expenditure of 2004 of the European Agricultural Guidance and Guarantee Fund Guarantee Section. The audit was completed in January 2005. It was the first audit of such type in Lithuania. Subject of this audit is known to the public as direct payments to farmers for the crop, means of rural development, export compensations etc.

3. NATIONAL AUDIT OFFICE AND MUNICIPALITIES

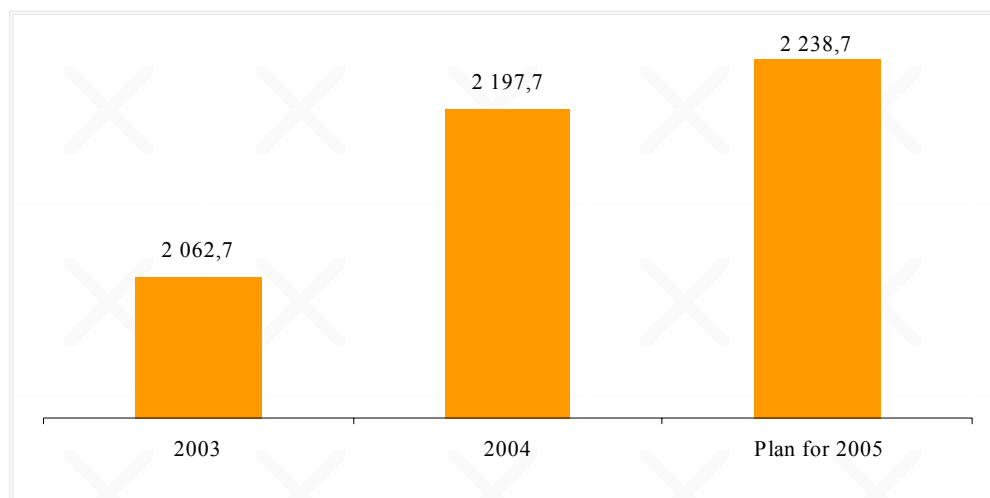


Figure 5. State budget subsidies to municipalities, million Litass

In 2003 amendment of the Law on the State Control specified functions of National Audit Office related to municipalities, i.e., instead of the former right to perform external audit of implementation of municipal budgets it was laid down in the new law that the National Audit Office carries out audit of state budget funds allocated to municipalities. In such a way the attempt was made to avoid duplication of external audit carried out by municipalities' controllers, because according to the Law on Local Authorities, implementation of municipal budgets shall be audited by municipalities' controllers and the National Audit Office of Lithuania shall perform audit of use of public funds allocated to municipal budgets.

In legal terms, having regulated the system of external and internal audit in municipalities, audit functions of the National Audit Office acquired a new character and scope.

Besides, several new functions were attributed to the NAOL – methodological and audit quality supervision in municipalities. It was stipulated by legal acts that municipality controller's service follow Public Auditing Requirements and methodological guidelines issued by the National Audit Office. National Audit Office performs also external review of audit carried out by municipality controller (municipality controller's service).

4. EVALUATION OF ACTIVITIES OF THE NATIONAL AUDIT OFFICE

Strategic Development Plan of the National Audit Office highlights the achieved impact: effect (*Strategic Goal of the National Audit Office*) and result (*Goal of the Programme of the National Audit Office*). Services (product) delivered by the National Audit Office are evaluated: their scope, quality, resources needed for delivery of services (*Tasks of the Programme of the National Audit Office*). Seeking the more precise evaluation of our activities and trying to avoid the incorrect evaluation we apply several types of performance evaluation. We use both the internal and external sources of information (surveys).

In order to receive external evaluation of its performance, the National Audit Office applied to SIGMA² in 2004. It was asked to carry out the expert analysis of the Office once again. SIGMA agreed to perform it in 2005.

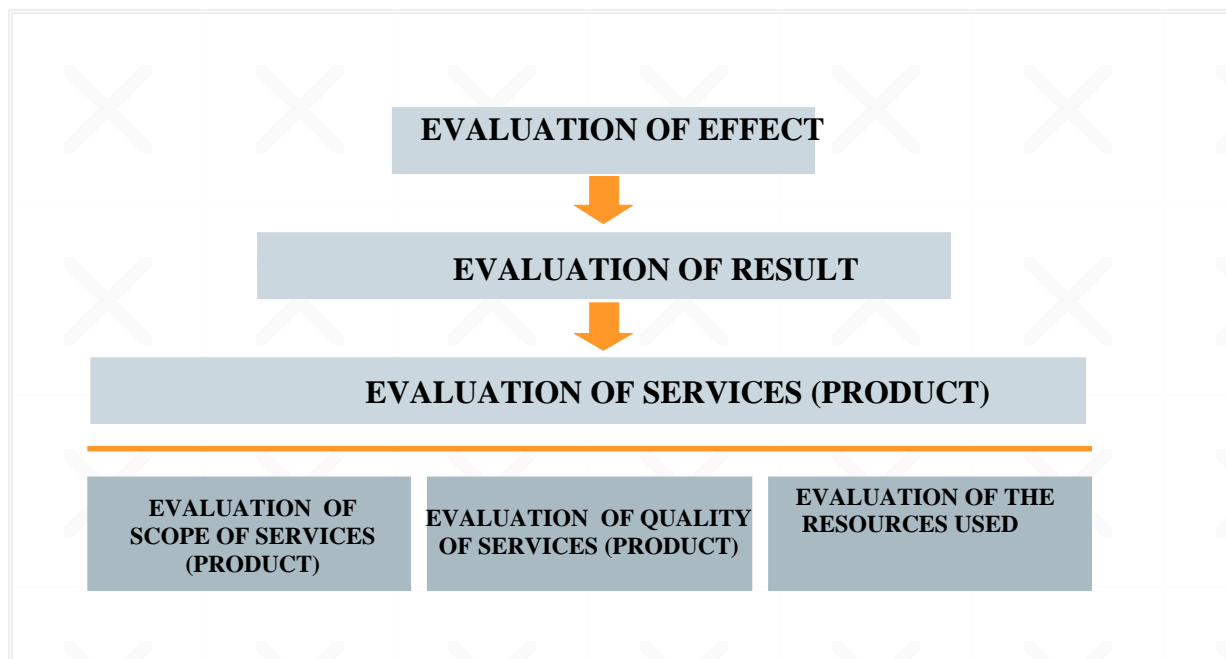


Figure 6. Hierarchy of evaluation of performance of the National Audit Office of Lithuania.

Following the above presented hierarchy we shall analyze activities of National Audit Office in 2004.

4.1. EVALUATION OF THE EFFECT AND RESULT (IMPACT)

According to the adopted Strategic Development Plan of the National Audit Office for 2005-2007 we shall carry out evaluation of the effect (*strategic goals of the institution*: to encourage introduction of progressive financial management and control systems into the public sector, to promote results-oriented management in public administration entities, to strengthen parliamentary control of the state accounts and revenue, to encourage transparent and efficient management and use of the European Union financial assistance, to protect financial interests of the European Union) in 2006.

In order to ensure reliability of evaluation of the performance impact, we conducted the following surveys of the most important users of our work results before the year 2006: survey of members of the Seimas – in summer 2004, and public institutions – in January-February 2005.

Opinion of the Seimas Members

Data of the Seimas members' survey submitted in July 2004 revealed that more than 52 per cent of the surveyed members of the Seimas answered that they „always“ or „often“ read public audit reports submitted by the National Audit Office; more than 85 per cent turn to the National Audit Office with various questions they are interested in. Even 87 per cent of them consider that public audit reports contribute to their activities as Seimas members. 87.5

² *Support for Improvement in Governance and Management.*

per cent assume that the National Audit Office contributes effectively to ensuring accountability in the public sector.

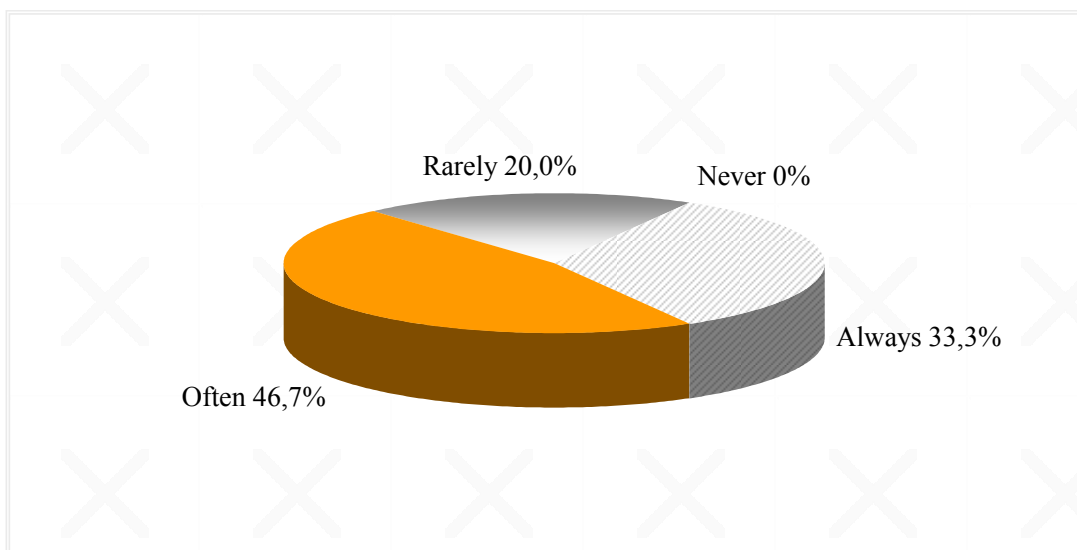


Figure 7. Do members of the Seimas use reports of the National Audit Office as a source of information in their work

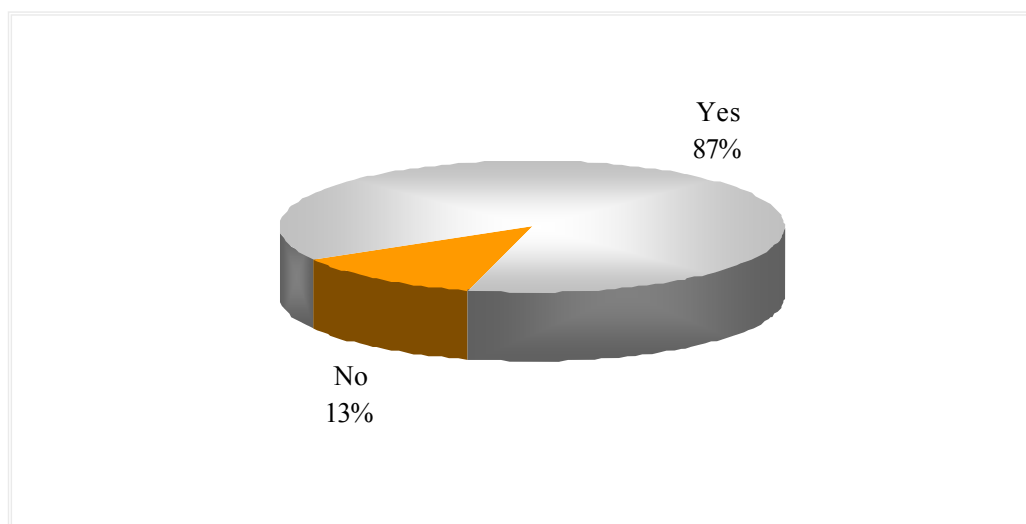


Figure 8. Do reports of the National Audit Office contribute to activities of members of the Seimas

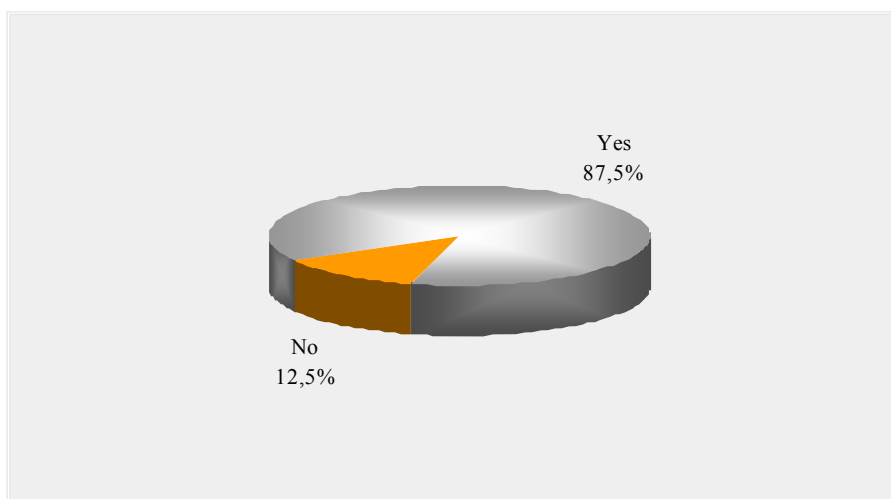


Figure 9. Opinion of members of the Seimas: does the National Audit Office contribute effectively to ensuring accountability in the public sector

Opinion of Public Institutions

In January–February 2005 evaluating its activities the National Audit Office carried out a survey in public institutions where financial audits were performed in 2004 in order to find out the opinion of its clients (heads of the audited entities, chief accountants and internal auditors) related to activities of the National Audit Office and changes in its work.

Even 91 per cent of heads of public institutions, chief accountants and internal auditors responded that they had used reports of the National Audit Office and work of public auditors as a source of information in 2004, and 9 per cent gave a negative answer.

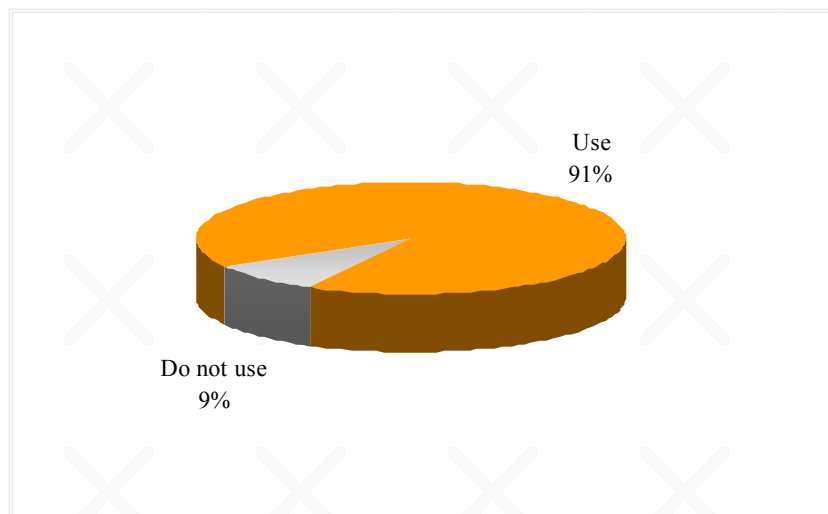


Figure 10. Did public institutions use the reports of the National Audit Office and work of public auditors in 2004?

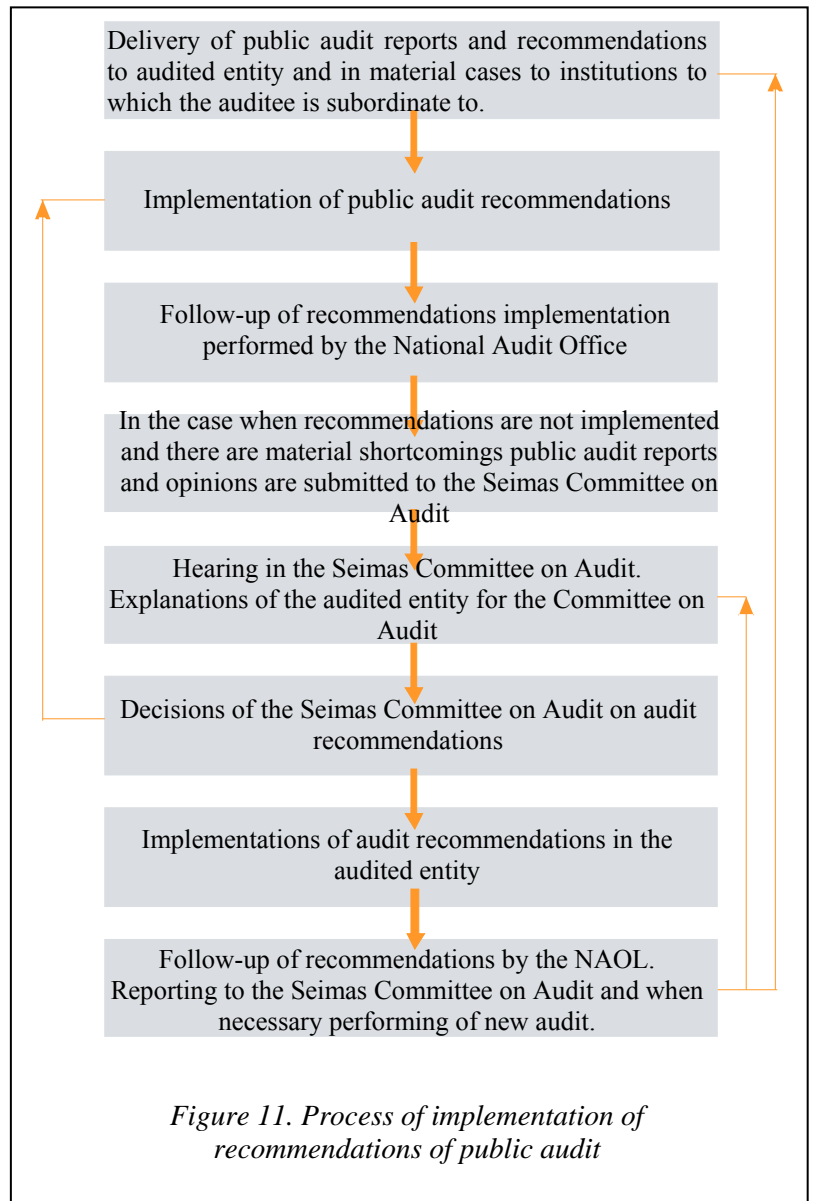
Heads of public institutions, chief accountants and internal auditors indicated that in 2004 public audits contributed most efficiently to the development of internal control and internal audit in public institutions (93 per cent of respondents answered “yes”, 7 per cent – “no”). Public audits contributed as well to the development of management, utilization and disposal of state property (86,5 per cent respondents answered “yes”. 13,5 per cent – “no”), to further development of accountancy and financial responsibility (85 per cent of respondents answered “yes”, 15 per cent – “no”).

Implementation of Recommendations

Audited entities are responsible for implementation of audit recommendations (hereinafter – recommendations) and for removal of identified shortcomings. In the process or implementation of recommendations the National Audit Office performs the follow-up function. Major part of audit recommendations are implemented after auditees are informed about them.

If public institutions or other audited entities do not take appropriate measures in order to remove shortcomings and implement recommendations, public institution to which the auditee is subordinate to is informed about it.

If shortcomings are not removed even after that (as well as in cases when significant recommendations submitted during the audit), the National Audit Office turns to the Committee on Audit of the Seimas which according to its regulations seeks to apply parliamentary measures and help the Supreme Audit Institution – the National Audit Office – in establishing public audit impact on the State and the public and ensure that recommendations of the NAOL would be fully implemented.



In its Strategic Development Plan for 2004-2006 the National Audit Office set criterion of fulfilment of programme goal; it was ratio of fully and partly implemented recommendations compared with all the recommendations submitted during the audit or presented in the report, date of implementation of which is expired.

Further implementation of recommendations submitted in 2003

79 per cent of recommendations submitted by the National Audit Office in 2003 were completely or partly implemented until 31 December 2004. 11 per cent of recommendations needed longer period of implementation due to objective reasons. 4 per cent lost their relevance, 1 per cent of recommendations were rejected by auditees.

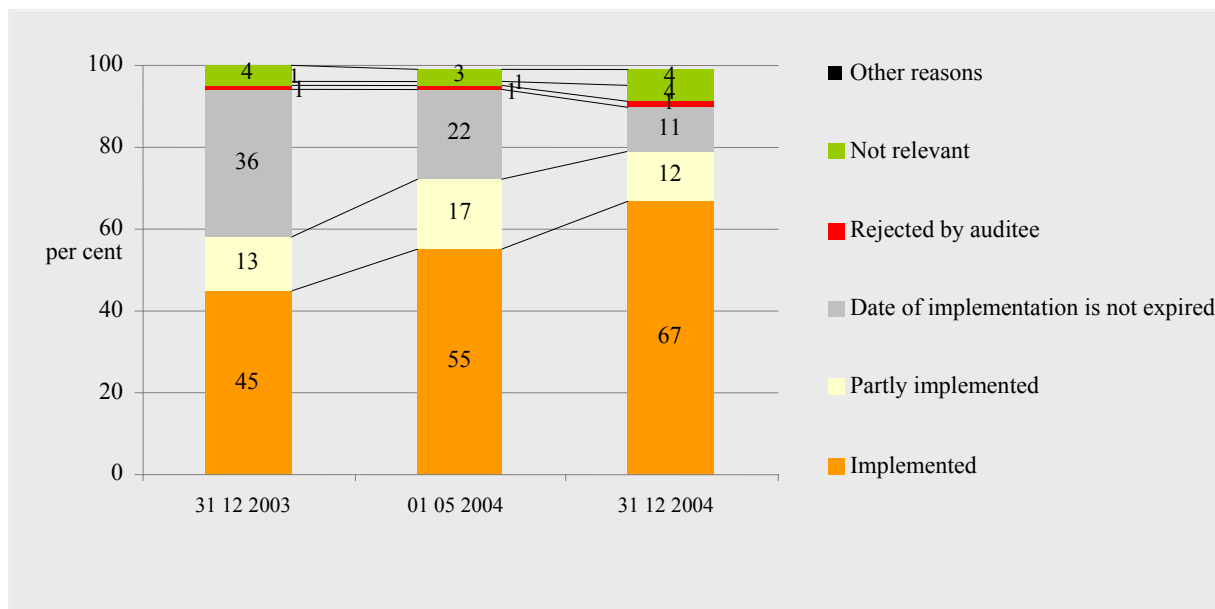


Figure 12. Dynamics of implementation of recommendations presented by the National Audit Office in 2003 (implementation of recommendations presented in 2004)

By the end of the year 2004 there were completely implemented 48.7 per cent of all recommendations, 3.7 per cent more than last year. There were partly implemented 14.1 per cent of recommendations or 1.1 per cent more than last year.



Figure 13. Implementation of the NAOL recommendations given in 2004

The complete or partial implementation of the recommendations presented in 2004 the term of implementation of which has expired has exceeded the planned results.

Development of financial accountability for public institutions

One of the NAOL programme goals is to contribute towards improving the transparency of the public sector. The established criteria for assessing this goal is to measure the percentage of qualified and unqualified audit opinions on the financial statements of public institutions across all categories.

The criteria planned in 2004 was exceeded by 9 per cent (planned 85 per cent, achieved 94 per cent).

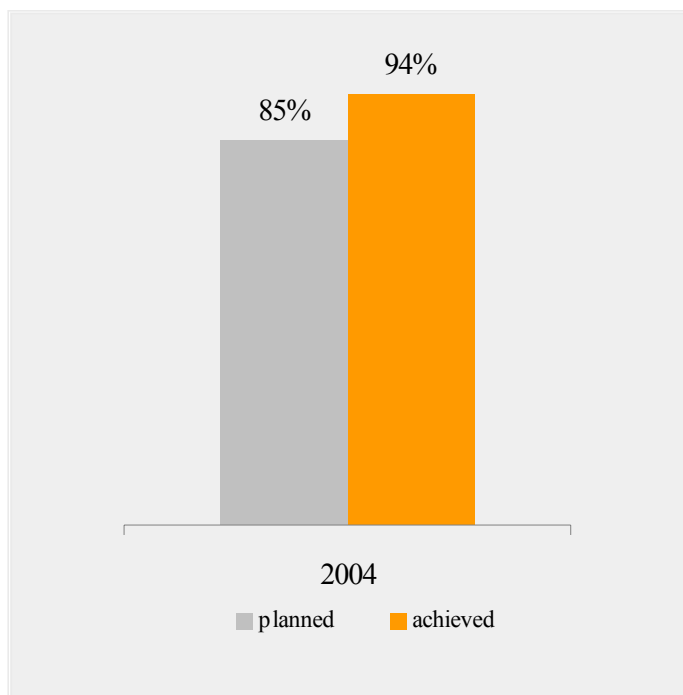


Figure 14. The part of unqualified and qualified audit opinions on the financial statements of public institutions

4.2. SERVICE (PRODUCT) SCOPE EVALUATION

Public audits³

■ In 2004 for the first time financial audits were completed by preparing an audit report and audit opinion for the institution managed by the appropriation manager. In 2003 there were started and in 2004 completed financial audits during which there were prepared 113 financial audit reports and opinions. In the second half of the year 2004 there were started 112 financial audits which were completed in the first half of 2005.

■ In 2004 the NAOL completed 37 performance audits, 2 preliminary studies and prepared 2 reports on the preliminary studies (it was decided not to carry out the main study), the ongoing audits will be completed in the I-II quarters of 2005. In total 78 auditees were audited in 2004 (78 audit reports were prepared and presented).

■ In pursuance of Resolution of the Seimas Concerning the Assignment to the National Audit Office of Lithuania to Perform Audits of the European Union Financial Aid in 2004 it was carried out one winding-up audit of ISPA project, one audit of corroboration of SAPARD expenditure reports of 2003 and additionally it was prepared the interim audit report on ISPA technical assistance project.

■ According to the plan in 2004 there were implemented 3 projects of public expenditure audit. Additionally in 2004 it was started and in the first half of 2005 will be finished the public audit *Measures Against VAT Fraud* in the State Tax Inspectorate.

■ Financial audits started in 2003 and completed in 2004 covered 78.8 per cent of the state budget expenditure of 2003, it makes more than 8.5 billion Litas (comparison: in 2003 the audits covered 84.9 per cent of state budget expenditure of 2002, in 2002 the audits covered 38,7 per cent of state budget expenditure of 2001.)

³ Public audit reports are presented on the website of the NAOL www.vkontrolė.lt.

The audits started in 2004 cover 10,12 billion Litass or 79,9 per cent of the state budget appropriations of 2004.

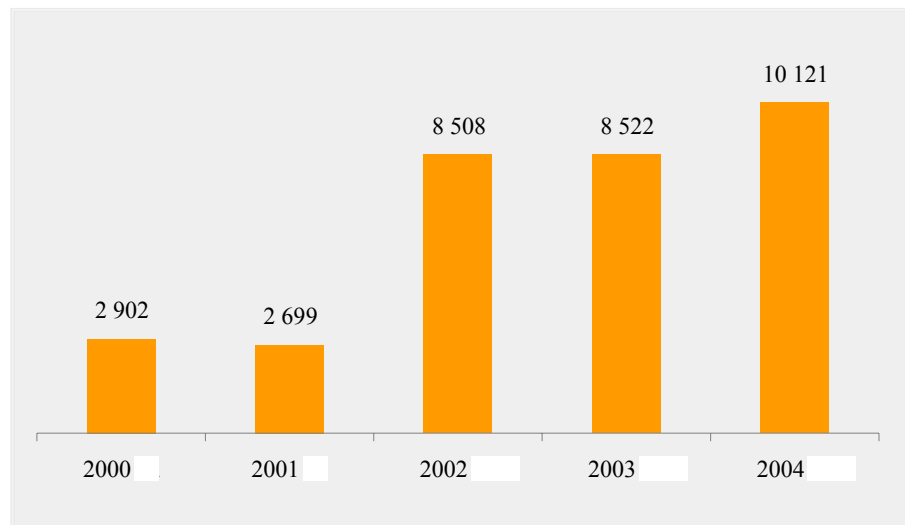


Figure 15. Audited public expenditure from the state budget in 2000-2004, million Litass

■ In 2004 as every year according to the plan the NAOL had prepared and submitted to the Seimas the Annual Report of 2003 and 4 mandatory opinions:

- opinion on the account of the execution of the 2003 State budget,
- opinion on the Government report on 2003 public debt,
- opinion on the report about State-owned property in 2003,
- opinion on the draft State budget 2005.

The opinions were considered in the committees and plenary sitting of the Seimas (opinion on the report about State-owned property in 2005).

■ In 2004 the NAOL submitted 22 performance audit reports to the Seimas. Also it was submitted the summary of financial audits and two reports on European Union financial assistance audits.

Other activity

■ In 2004 the NAOL presented suggestions and comments concerning drafts of legal acts to the respective institutions.

An analysis and evaluation of provisions of laws and other legal acts was based on the audit opinions of 2004.

■ Since 2002 the NAOL had made an agreement of mutual co-operation with the Special Investigation Service and the Financial Crime Investigation Service under the Ministry of the Interior.

In pursuance of the agreement of mutual co-operation with the Financial Crime Investigation Service under the Ministry of the Interior concerning protection of the Community's financial interests there is a constant exchange of the information related to the use of EU financial assistance. In accordance with the agreement in 2004 the NAOL handed out the documents of three audits conducted.

- In 2004 the staff of the NAOL participated in the activity of the working groups:
- In Audit Control Committee of the Lithuanian Chamber of Auditors,
 - In the Interdepartmental Commission for Co-ordination of Fight Against Fraud,

– In the Working Group on the Effectiveness of Protection of the Community's Financial Interests and Co-operation between Competent National Authorities,

– In the Committee on Technical Task Formulation Service Supervision designed for the reform of the state and municipalities' budget execution and the state debt accounting and accountability system.

■ Audit methodologies prepared by the NAOL became a new type of service for external users. Up until then the audit methodologies were used within the NAOL. Having amended the Law on the State Control on 25 November 2003 the Municipality Controller's Services use the audit methodologies prepared by NAOL.

■ The NAOL presents the methodological support for the internal audit services especially concerning the EU funds control. In 2004 the specialists from the Ministry of Finance (the institution co-ordinating an internal audit) as well as internal auditors from the Ministries of Environment and Transport participated in four seminars organized by the NAOL.

4.3. SERVICE (PRODUCT) QUALITY EVALUATION

Competence development

The main NAOL personnel training goal is to ensure that in implementing the main aims and tasks of the NAOL the staff is qualified, acquires an updated information and develops skills according to the time. In order to achieve this goal in 2004 the training was designed according to the training needs of the NAOL staff using NAOL officers' and servants' competence evaluation system.

In 2004 the great attention was granted to NAOL officers' professional training, strengthening of management skills, computer literacy development, studying of languages. In 2004 95 per cent of the NAOL officers participated in the continuous financial and performance audit professional training courses. The newcomers are trained according to the general programme of introductory course in the Economic Training Centre and the NAOL.

The particular attention in 2004 was granted to the development of administration capacity and effective management skills. All the NAOL top management raised their qualification in the Public Administration Institute of Lithuania and completed the training programme „Olymp“ for the leaders of institutions.

Public audit review system

The NAOL had introduced two level public audit review system – internal and external review.

Internal review is being conducted every time after the public audit is conducted. Internal review is conducted by the director of the department or his deputy and audit team leader (during the financial audit).

The completed audits were included into external review plan according to the selection method defined in the public audit external review procedure. Audit reports were selected for the external review according to the random selection method. The external review is conducted by persons not participated in the audit reviewed.

In 2004 there were conducted external reviews of 11 financial and 12 performance audits. During the external review the reviewers detected the points of public audit methodologies to be improved, which will be revised and complemented; the attention was focused on the areas where auditors have to improve the knowledge both on their own and trainings, also good practice examples were detected.

Quality evaluation

In order to assess its activity in January-February 2005 the NAOL carried out a survey in the public institutions. The aim was to find out the opinion of the management, chief accountants and internal auditors of

public institutions on the quality of NAOL's work, the variation of auditors' competence and relevance of audit recommendations.

67 per cent of respondents answered that the competence of auditors in 2004 was better than the previous year. 58 per cent responded that in 2004 public auditors were following ethics more than the previous year.

81 per cent of respondents answered that audit recommendations are professional and relevant. 18 per cent responded that recommendations are formal and insignificant. Only 1 per cent stated that recommendations are irrelevant and impracticable.

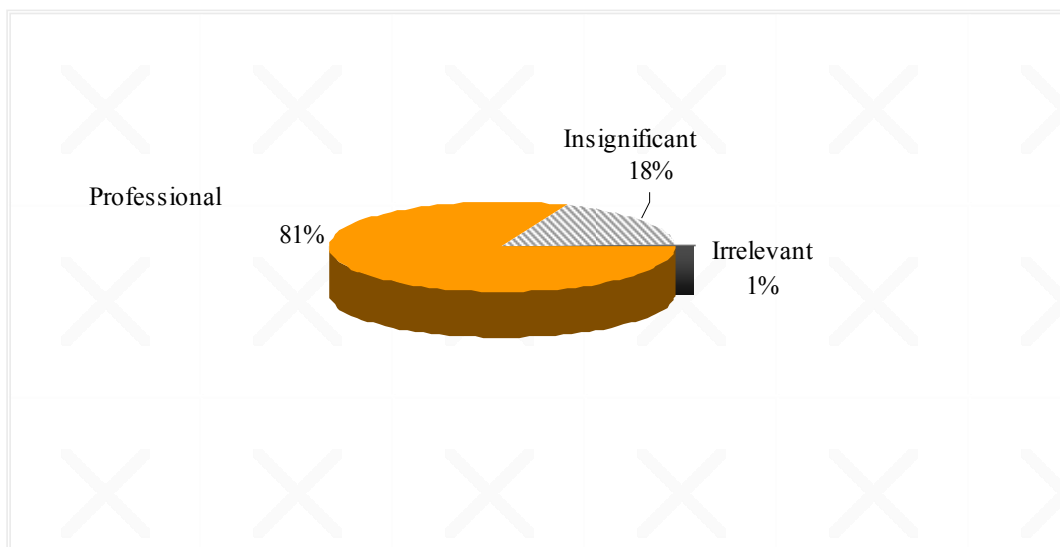


Figure 16. Evaluation of relevance of public audit recommendations

Judicial disputes

In 2004 the quality of the statements of Auditor General (deputies) was improved. Out of 20 statements of Auditor General (deputies) in 2004 two statements were appealed. Complaints were cleared and the statements were not cancelled, courts validated the statements of Auditor General.

International co-operation

The NAOL strives to keep up the audit methodology and practice with international standards and best international practice. Therefore we aim to develop the international co-operation and look for new possibilities of co-operation.

Since October 1992 the NAOL is a full member of INTOSAI and is a member of committees on Audit Standards, Accounting Standards, Internal Audit Standards, Standing Committee on Information Technology, Public Debt also a member of working groups on Privatization and Programmes' assessment.

The NAOL is a full member of EUROSAI. The NAOL is an observer of Training Committee and participates in the working groups on Environment Audit and Information Technology. Having assessed the contribution of the NAOL, in 2002 in V EUROSAI Congress in Moscow the NAOL was voted into the Governing board for six years. Our institution represents not only Baltic states (Estonia and Latvia) but Poland as well.

Having joined the EU the co-operation between SAIs of Baltic and Nordic countries had become very important. The NAOL shares experience during the meetings of the heads of SAIs of Baltic and Nordic countries which take place every year in one of the Baltic states. In 2004 such a meeting was organized in Vilnius. The topics of the meeting were *Auditing of State Revenue* and *IT Use in Auditing*.

There is also an intensive knowledge exchange with SAIs of Scandinavian countries – Denmark, Finland, Norway and Sweden. No less important is the co-operation with neighbour states from Eastern Europe – Belarus and Ukraine. Representatives of the NAOL regularly meet OLAFS representatives visiting Lithuania, consult them on the issues concerned and participate in the international events of this organization.

Also the NAOL and other SAIs conduct joined and parallel audits. In 2004 it was conducted an audit of Environment monitoring system development assessment and Evaluation of implementation of the Helsinki Convention provisions on the protection of the marine environment of the Baltic sea basin.

PHARE project

In 2004 the NAOL started the implementation of the second PHARE project. The first and the second projects consist of two parts – consulting and investment. The first part funded from PHARE is called Twinning Project. It is due to provide intellectual support from NAO United Kingdom and SAIs of other EU countries. In the second part of investments it is planned to provide the NAOL with new computer and organizational equipment and applications. The best part of funds is allocated from EU and the rest from the state budget.

The implementation of the first Twinning Project was started in May 2002 and completed in October 2003. The Project was highly evaluated by the European Commission delegation accredited in Lithuania and the partners participated in the implementation. The Commission delegation responsible for the monitoring of PHARE programme in Lithuania evaluated the first Twinning project as a model project (project the leader).

The term of the second Twinning Project is from January 2004 to July 2005, the aim is to ensure the NAOL's activity meets the respective acquis requirements and external public audit is being conducted according to international standards. Project value is 950 thousand. euros. It takes 450 working days of short term experts.

Second Twinning Project consists of:

- 1 component. Corporate Support.
- 2 component. Financial Audit.
- 3 component. Performance Audit.
- 4 component. EU Funds Audit.
- 5 component. Revenue and State Audit.

The United Kingdom is the Member State delivering this project, represented by the National Audit Office, UK (NAOUK). NAOUK works in conjunction with a Member State junior partner, Sweden represented by the Riksrevisionen. We also enjoy STE support from the Rigsrevisionen of Denmark and the Tribunal de Contas of Portugal.

Project activities provide with new experience and skills. The auditors gained more knowledge about audit quality assurance and practice. Experts' work with performance audit methodology development groups contributed towards preparation of better recommendations for auditors on how to perform public audit.

In conjunction with experts 19 pilot financial and performance audits are being conducted, public auditors are getting acquainted with new methodologies. The methodology of financial, performance and revenue and state audit is being developed. New methods are being implemented in the regional departments.

Twinning project activities enabled the development of all important areas of public audit, such as management, methodology, audit process, quality.

In 2003-2004 the investment assets were used for purchasing computer equipment, servers, stationary computers and lap tops, 35 printers, networking equipment and other. This enabled all the public auditors to use their lap tops both at work and at auditee's.