



NATIONAL AUDIT OFFICE OF THE REPUBLIC OF LITHUANIA

ANNUAL REPORT 2005

30 March 2006 No. Y-1

Vilnius

AUDITOR GENERAL'S WORD



In your hands you hold the Annual Report 2005 of the National Audit Office of Lithuania (hereinafter – NAOL). It aims to reflect the works done by the Lithuanian Supreme Audit Institution during the last year, as well as their results and impact on the public sector institutions and all the people of our country. During the last year we gave a lot of attention to the development of the National Audit Office as an institution: we improved methods of public audit, public relations, developed international cooperation, our auditors raised their qualification. Our activities in 2005 were assessed taking into consideration aims and assessment criteria established in the Strategic Plan of the NAOL. Attached to the Annual Report there is an extract of the Financial Statement of the NAOL and an opinion of

an independent auditor.

I became the head of the NAOL a year ago. At the beginning I thought a lot about what politicians, heads of public institutions appointed by them, and all the people of our country expect from our institution. At first glance the answer is clear – the public want public auditors to present the unbiased and accurate information about whether the public finance and other property are accounted for properly and managed wisely. On the other hand, we have to recommend the

managers of public property what should be changed in order to give the most benefit for the people. Quite a few members of the public still would like the NAOL itself to punish offenders. However, such a requirement contradicts the nature of the audit, because it is the duty of auditors to recommend not how, but what should be changed.

The previous year was significantly marked by the fact that the Seimas Audit Committee started its activities, and it is one of the directions of its work to analyse public audit reports and opinions submitted to the Seimas and Seimas Committees and draw up draft resolutions on implementation of the NAOL's recommendations presented in public audit reports and opinions. It obviously increased efficiency of public audit. Now we have to pursue by common efforts that public institutions would satisfy the needs of Lithuanian people the best they can.

It is our aim that our every audit would be thorough, unbiased, based with reliable evidence, and that audit opinions would reflect essential problems.

Most reliable way to improve audit quality is to raise auditors' qualification and increase their competence. None the less important is to ensure qualitative internal and external audit review. To this effect we developed training system for auditors; audit methodologies are constantly developed, all the audit stages are controlled. Although you will not find anything about ethical features of auditors in this report, but I may boldly say that we believe in principles established in the Ethical Code of Officers of the NAOL.

When signing the Annual Report of the NAOL, I count not only works performed pursuing for wise management of the public property. I perfectly see also what should be accomplished during the next years. I will name the priorities:

Audit topics we chose reflect topical issues which are of public concern. It is obvious that a large part of Lithuanian people think poorly of some of services provided by public and municipal institutions. Therefore we planned to perform audits in these fields. For example: we will evaluate public health care, organization of the pupils' free catering, progress of the land reform, management of the state-owned land. Other auditors will examine development of business environment. We analyse the use of public investment into infrastructure. There are audits already going on in the Klaipėda State Sea Port, entity „Lietuvos geležinkeliai“. This year we will audit modernisation of the transport infrastructure.

We will seek that audit recommendations would be directed not towards evaluation of the past events, but towards the future; in order for their implementation to help managers of the state property to create the added value.

In our financial audits we will not restrict ourselves to examination of accounting and financial statements; but rather pay more and more attention to regularity issues of the use of funds.

Up to now our audits of the European Union funds payed most attention to correctness of financial statements and to how system for distribution and use of funds is designed and how it operates. Obviously, it is important. None the less important is to supervise whether the funds are used economically, efficiently, and effectively. Therefore this year and in the future we plan to more often examine efficiency of the use of the European Union funds.

We will pursue to promote accountability in the public sector, management oriented towards results and people's needs, as well as progress of financial management and control systems.

We will strengthen preventive activities and will seek to warn in advance about the intended unsound steps.

We have to recommend managers of public property what should be changed in order to give maximum benefit for people.

MOST IMPORTANT ACTIVITIES IN 2005

NAOL submitted mandatory opinions on the account of the execution of the 2004 state budget, opinion on the public debt, opinion on the state-owned property, and opinion on the draft state budget 2006.

National Audit Office of Lithuania performed in 2005:

- Financial audits of 100 public institutions and entities, and 4 public accounts. Financial audits of the NAOL in public institutions and entities audited 11,4 billion LTL, i.e., 83 per cent of all the state budget appropriations used in 2004;

- 48 performance audits (systems audits, public revenue audits, audits of separate institutions and implementation of state budget programmes) and evaluations of information systems;

- Audits of target state budget subsidies allocated to performance of the public functions (which are assigned to municipalities) and to financing of the pupil's basket in 12 municipalities' administrations;

- Winding-up and certification audits of the European Union financial assistance and designed 7 public audit reports which were submitted to the respective European Union institutions;

- External review of financial and performance audits performed by 15 municipality controllers (Control services).

Seimas Audit Committee and other Seimas Committees discussed 22 performance audit reports and 14 financial audit reports and opinions. Seimas adopted 7 Resolutions (one of which on performance audit report by the NAOL), and Seimas Audit Committee – 19 decisions according to the results of public audit reports.

93.2 per cent of recommendations given in public audit reports in 2005 were implemented and partially implemented.

Implementing Seimas Resolutions initiated on the basis of the NAOL audit results, the Government approved conception of reform of public sector accounting and financial statement system.

Amendments to the Law on the State Control were initiated. This Law passed in the Seimas revised aims and goals of the activity of the National Audit Office of Lithuania, as well as reinforced the role and responsibility of the Auditor General and Deputy Auditors General in public audit process.

Public Audit Strategy for 2006-2010 was approved. The Strategy schedules measures for promoting of results-oriented management, financial management and development of control systems, as well as improvement of public sector accountability and audit quality.

In 2005 NAOL submitted suggestions on draft legal acts, including Law on the National Debt, Law on Management, Use, and Disposal of the Public and Municipalities' Property, State Treasury Law, Law on Confirmation of the State Budget and Municipalities' Budgets Financial Indicators, and other draft legal acts.

CHAPTER I

ROLE OF THE NATIONAL AUDIT OFFICE OF LITHUANIA, PERFORMANCE ENVIRONMENT, CAPACITY DEVELOPMENT

- 1.1. Role of the National Audit Office of Lithuania and performance environment
- 1.2. Development strategy of the National Audit Office of Lithuania
- 1.3. National Audit Office of Lithuania – public finance management adviser
- 1.4. The way to development

1.1. ROLE OF THE NATIONAL AUDIT OFFICE AND PERFORMANCE ENVIRONMENT

Role of the National Audit Office of Lithuania

The mission of public audit is to help the nation manage and use property, funds and other resources wisely thus assisting the Seimas in execution of parliamentary control, promoting progress in public sector and supervising the implementing of the state budget and whether the public property is managed and used lawfully.

The system and power of the NAOL is established in the law. In the end of 2005 in order to specify its performance aims and goals in the legal term, NAOL initiated Amendments to the Law on the State Control.

Main goals of the NAOL are set in the Article 4 of the Law on the State Control:

- to supervise the lawfulness and effectiveness of management and use of the state property and execution of the state budget;
- to promote positive and effective impact of public audit on financial management and control system of the state, and on public management oriented towards results and public needs.

Currently Draft Amendment of the Part 2, Article 134 of the Constitution of Lithuania is registered in the Seimas. The Draft Amendment suggests to provide for the NAOL to supervise management and use of municipalities' property, and implementation of municipalities budgets.

Information on activities of the National Audit Office of Lithuania is presented in the Figure 1. below.

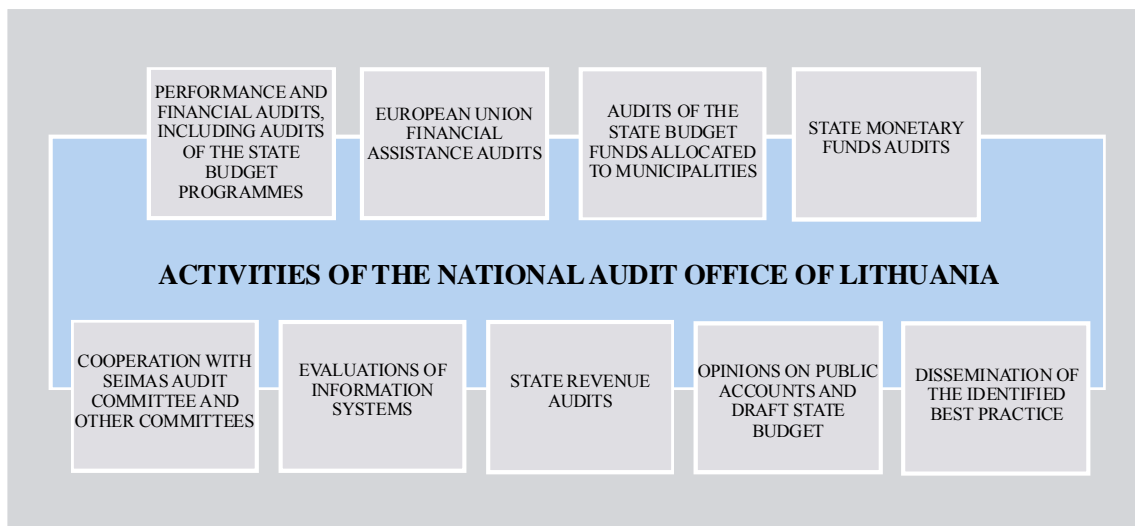


Figure 1. Activities of the National Audit Office of Lithuania

How Performance Environment of the National Audit Office of Lithuania Changed in the Recent Years?

Understanding about public audit improved, there is a successful cooperation with the Seimas Audit Committee.

Reform of public sector accounting and financial statement system was started. In 2005 conception of the system reform was designed.

In 2004 the Government approved Public Administration Development Strategy until 2010, and in 2005 – Plan of Measures for Implementation of this Strategy in 2005-2006.

Since 2004, when European Union funds became a constituent part of the state budget revenue, European Union assistance for Lithuania is increasing every year: in 2004 it was 1.4 billion LTL, in 2005 – 2.0 billion LTL, in 2006 – 3.3 billion LTL.

Government is further developing strategic planning methodology, and public institutions allocate big part of resources to strategic planning.

More and more of traditional activities of public institutions are transferred into electronic environment.

In What Public Sector Areas does the Progress Need to be Promoted?

Regardless of the fact that some of public finance management problems are solved

successfully, in NAOL's opinion there are public sector areas where the progress needs to be promoted:

- It is necessary to increase transparency of budgeting and reporting about its implementation.
- When undertaking new obligations for the state, the existing obligations and imminent fiscal threats (factors of risk) for financial status of the state should be taken into consideration.
- Public funds for municipalities are allocated to finance the process, and not to achieve the result. Unlike budgetary institutions which receive state budget appropriations, the law approves target subsidies for municipalities without programmes and evaluation criteria. Accordingly there is no reporting to the Seimas on effectiveness and efficiency of implementation of municipalities' public functions (which are assigned to municipalities)
- Internal control and internal audit services of all levels are still inadequately implementing their functions.
- It is necessary to strengthen control environment and procedures of computerized information systems of public institutions, improve skills of internal audit services to perform audits of information systems.
- Payroll procedure for judges and staff of universities and institutes, which is paid not from the pay fund is still improperly regulated.
- Payroll procedure of public institutions, shareholders of which are ministries or other public institutions, and where the largest part of funds come from the state budget, public institutions or other monetary funds is also not regulated.
- Insufficient attention is paid for transparent allocation of the state budget funds to public entities.
- Property exchange when state-owned property is exchanged into the prospective property which is not yet generated, is not always performed in conditions advantageous to the state.
- Processes of territory planning and public supervision of construction are not smooth.
- Business environment should be improved.

On the above mentioned finance management problems NAOL gave recommendations to the Seimas in opinions on public accounts; audits of these areas are incorporated into Activity Programme 2006.

1.2. DEVELOPMENT STRATEGY OF THE NATIONAL AUDIT OFFICE

Strategic aims of the National Audit Office of Lithuania are the following:

1. Help strengthening parliamentary control exercised by the Seimas in areas of public accounts and state revenue;
2. Promote transparent and efficient management and use of financial assistance provided by the European Union, and protect financial interests of the European Union;
3. Promote introduction of progressive financial management and control systems in public sector;
4. Promote results-oriented management in public administration entities.

Public Audit Strategy for 2006–2010

Public Audit Strategy for 2006-2010 was approved following the Seimas Regulation of 24 May 2005, No. X-221 „On Annual Report 2004 of the National Audit Office“, having evaluated Long-term Development Strategy of the State approved by the Seimas, standards of the International Supreme Audit Institutions Organization (hereinafter – INTOSAI) and INTOSAI Strategic Plan 2005-2010, suggestions of experts of Fund of Technical and Financial Support of Donor Countries for Candidate Countries (hereinafter – PHARE), European Union Support Organization for the Central and Eastern European Countries (hereinafter – SIGMA), results of research of how Seimas members and audited entities rate services provided by the NAOL. Aim of the Public Audit Strategy is to promote accountability, management oriented towards results and human needs, progress of financial management and control systems in the public sector.

Seeking to achieve strategic aim of public audit we set the following directions of implementation measures of the Public Audit Strategy for 2006-2010 (Figure 2.):

1. Strengthening independence of public audit;
2. Strengthening cooperation with the Seimas, Seimas Audit Committee, and other Seimas units;
3. Enhancing institutional processes of the NAOL;
4. Strengthening processes of public audit.

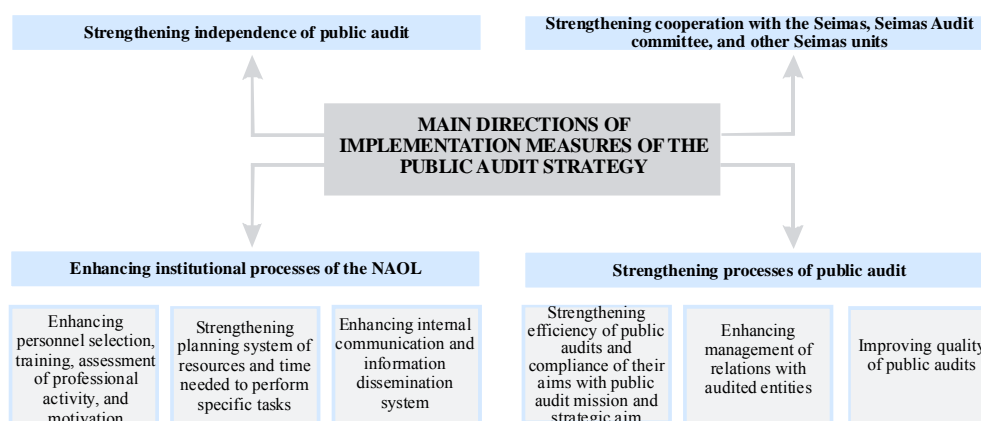


Figure 2. Main directions of implementation measures of the Public Audit Strategy for 2006-2010

1.3. NATIONAL AUDIT OFFICE – PUBLIC FINANCE MANAGEMENT ADVISER



Definitely establishment of the Seimas Audit Committee was a very significant event for the National Audit Office of Lithuania

Colm Dunne – director of the Irish consultative company EPSILON, SIGMA expert

Seimas Audit Committee together with the European Information Centre of the European Affairs Committee on the occasion of the „European week“ in the Seimas, commemorating first anniversary of Lithuanian membership in the European Union, organized a discussion „Problems of Use of Resources of the European Union Funds“. In the photo: Chairman of the Audit Committee A. Skardžius, Director of 7 Financial Audit Department of the NAOL T. Mackevičius, Director of EU Programmes Management Department of the Ministry of Finance A. Stankaitienė, Head of Preparation for Structural Funds Unit of the Central Projects Management Agency I. Vilimienė.

Photo by: Lina Žilytė, archives of the Seimas of the Republic of Lithuania.

Cooperation of the National Audit Office of Lithuania with the Seimas – an Important Part of Supervision of the Public Funds and Property

NAOL helps the Seimas in execution of parliamentary supervision of the executive power: 22 performance audit reports and 14 financial audit reports were discussed in the Seimas Audit Committee and other Committees in 2005. Seimas adopted 7 Resolutions and Seimas Audit Committee – 19 decisions on performance of the NAOL and public audit reports. Implementing Seimas Resolutions initiated on the basis of the NAOL audit results, the Government approved conception of reform of public sector accounting and financial statement system, public property information system implementation conception was submitted to the Seimas. Seimas approved Draft Law on Social Services, which envisages measures on improvement of financing of child care institutions, specified State Treasury Law, and Public Debt Law.

It is just a few examples showing that cooperation with the Seimas Audit Committee substantially improved implementation of public audit recommendations and elimination of the identified weaknesses.

Dissemination of the Best Practice

Following Seimas Regulation of 24 May 2005, No. X-221 „On Annual Report 2004 of the National Audit Office“ and Seimas Audit Committee recommendations for the NAOL – to

disseminate best administration practice identified during public audits, NAOL carried out the following activities:

1. Organized seminars-discussions on the following topics: organization of accounting, management of finance, state-owned property and property managed by constructive trust, organization of internal control, state budget execution account, public debt account, report on state-owned property etc. for:

representatives of county administrations,

municipalities' specialists,

representatives of ministries (state secretaries of ministries, finance secretaries and internal auditors).

2. NAOL took part in organizing training for internal auditors of public institutions on evaluation of methodology and information systems of financial audit in the Training Centre of the Ministry of Finance.

3. Representatives of the Government Office, as well as Ministry of Finance and State Tax Inspectorate participated in the 5th Annual Meeting of EU countries SAIs VAT Working group which was organized by the NAOL. During the event participants from the NAOL as well as other Supreme Audit Institutions (hereinafter – SAIs) shared their experience.

Publicity of Performance

Audit reports were published in the website of the National Audit Office of Lithuania.

11 reports were published in the NAOL publication „Public Audit“.

18 press releases on most significant performance audits were drafted and dispersed. In addition, we submitted 54 informations and comments to information agencies, national daily papers and journals, 39 televisions and 24 radio stations according to inquiries of public information organizers on public audits.

Implementation of Recommendation Given in the NAOL's Reports and Decisions of the Auditor General or his/her Deputies

93.2 per cent of recommendations given in 2005 financial and performance audit reports the term of implementation of which has expired were implemented and partially implemented.

Compared with 2004, indicators of recommendations' implementation increased – in 2004 during the same period 92,7 per cent of recommendations were implemented and partially

implemented, i.e., in 2005 implementation of recommendations increased by 0,5 per cent (Table 1.*).

Recommendations, term of implementation of which is expired in the same year	2004		2005	
	number	per cent	number	per cent
Implemented	506	71.8	908	81.9
Partially implemented	147	20.9	125	11.3
Rejected by audited entity	7	1.0	12	1.1
Not relevant	1	0.1	9	0.8
Not implemented (other reasons)	44	6.2	55	4.9

Table 1. Comparison: Implementation of recommendations presented in 2004 and 2005 public audit reports in the same year

* Not included recommendations, term of implementation of which has not expired.

On the basis of audits performed in 2005, 17 decisions of the Auditor General or her Deputies were made. Identified performance deficiencies, violations of legal acts, suggestions to return to the state budget funds used not according to the target purpose, as well as to impose disciplinary penalty on persons who committed violations. It was recommended to impose disciplinary penalties on 14 persons, and in 2005 all of 14 persons were applied these penalties.

Cooperation with Other Institutions

In 2005 agreement was signed on cooperation among the National Audit Office of Lithuania, Internal Auditors' Association, Municipality Controllers' Association, and Lithuanian Court of Auditors.



Signing of Agreement on Development of Cooperation System among the National Audit Office of Lithuania, Internal Auditors' Association, Municipality Controllers' Association, and Lithuanian Court of Auditors on 3 May 2005.

In 2002 NAOL concluded cooperation agreements with the Special Investigation Service and Financial Crimes Investigation Service under the Ministry of Interior. Upon implementation of these agreements, in 2005 documents of 7 performed audits were submitted to Financial Crimes Investigation Service (3 in 2004) and other information collected during audits, to Special Investigation Service – documents of 4 audits and other information (3 in 2004).

Analysis of Assessment of Services Provided by the National Audit Office of Lithuania

Market analysis and research group (Joint-stock Company „RAIT“) performed analysis of assessment of services provided by the NAOL in audited entities in 2005. Majority of those who participated in the research stated that financial and performance audits are evidently useful, because first of all they allow to identify errors done and to correct them. Speaking about audit reports, opinions, and recommendations, it was stated that they are fairly clear, understandable, and well-grounded. Almost all the respondents stated that they had a possibility to fairly extensively discuss issues they were interested in during all the audit. Possibility to arrange meetings between the management of the NAOL and heads and chief accountants of the audited entities was acknowledged as a very meaningful idea. Wish was expressed that NAOL would become not only examining, but also consulting, informing institution, i.e., the one which would perform prevention of errors and irregularities. Representatives of various groups of audited entities which participated in the research expressed very similar view on services provided by the National Audit Office of Lithuania.

1.4. THE WAY TO DEVELOPMENT

Our values

Activity of the National Audit Office is based on principles of independence, legality, publicity, neutrality, and professional development.



Figure 3. Values of the National Audit Office of Lithuania

Staff of the National Audit Office of Lithuania

Main resources of the National Audit Office which influence performance results are the staff, their competence and professional skills.

At the end of 2005 number of employees of the NAOL was 325. In 2005, 43 new staff came to work for the NAO, and 49 were dismissed. NAOL, as well as the whole public sector faces the problem of keeping the qualified staff. As the survey conducted in the NAOL revealed, insufficient and too low pay was indicated as the biggest problem. According to public auditors who participated in the survey, increase in the pay could decrease staff turnover.

All of the NAOL officers have University education. There are 3 PhDs and 7 certified auditors in the NAOL. Average age of the staff is 42 years.

Activity areas of the staff	per cent
Financial Audit	48
Performance Audit	21
Maintenance Staff	16
Administrative Staff	14
Management	1

Table 2. Structure of the Staff of the NAOL by Activity Areas in 2005 (per cent)

Remark. Administrative staff consists of the staff of the following departments: Legal, International Relations, Information, Information Technologies, Finance and Accounting Departments, and Public Relations and Internal Audit Services.

Educational Background of the Staff	per cent
Economical/	39
Engineering	14
Other	14
Legal	12
Managerial	11
Finance/Accounting	10

Table 3. Structure of the Staff of the NAOL by Educational Background in 2005 (per cent)

Council of the National Audit Office

Council of the National Audit Office of Lithuania is the advisory body under the Auditor General which considers main issues of the NAOL activity and service in the NAOL. Council consists of 8 members who represent the main operating areas, which gives them a possibility to advise Auditor General on the main strategic and activity issues.

Main issues considered by the Council in 2005:

- Draft Public Audit Strategy for 2006-2010;
- Draft Strategic Activity Plan of the NAOL for 2006-2008 and Draft Estimate of Expenditure for 2006;
- Draft opinion of the NAOL on the Account of the Execution of the 2004 State Budget;
- Draft opinion of the NAOL on the Report on the Public Debt in 2004 of the Republic of Lithuania;
- (Draft) opinion of the NAOL on the Draft State Budget 2006 of the Republic of Lithuania;
- Draft opinion of the NAOL on Report on the State-owned Property in 2004;

Development of Competencies

Training in the NAOL receives especially high attention and funding. The main aim of personnel training in the NAOL is to ensure that the staff who are implementing aims and goals of the institution would be qualified, receive the up-to-date knowledge, and would develop skills corresponding to the time's needs. In pursuance of this aim, training was planned taking into consideration training needs of the NAOL staff and applying Competence Assessment System of Officers and Civil Servants of the National Audit Office of Lithuania in 2005. Training needs were assessed by summing-up information provided in personal development plans.

82 various training activities were organized in 2005. Utmost attention was paid to professional (audit) training, development of management skills, and training of foreign languages. More than 90 per cent of the NAOL officers participated in continuing financial and performance audit professional training. Greatest attention was paid to development of administrative competencies and efficient management skills.

Training areas	per cent
Audit	39
Foreign Languages	13
Management	11
Law	9
Information Technologies	9
Accounting/Economics	9
Other	7
European Union topics	3

Table 4. Training of the NAOL staff by areas in 2005 (per cent)

In 2005, 7 of our specialists participated in 5 international training programmes which were organized by the Office of Comptroller and Auditor General of India, French National School of Public Administration, and INTOSAI training division Development Initiative. These training events were financed by Indian and French Governments, and INTOSAI.

In 2005, 3 auditors of the NAOL studied in International Courses of Association of Chartered and Certified Accountants (hereinafter – ACCA), wherein they aim to get certificates acknowledged internationally. ACCA courses cover areas of audit, accounting, finance, performance management which are directly related with auditor’s profession and are based on modern international practice (there are 14 exams from various disciplines). Activities of the NAOL are directly related with the above mentioned areas, therefore training in ACCA courses is purposeful for efficient development of qualification of auditors.

In 2005 the first PHARE Twinning project was acknowledged as a model project (leader project) by the European Commission Delegation accredited in Lithuania and by all the partners who participated in implementation of the project.

In the same year the second PHARE Twinning project „Strengthening Capacities“ was continued and finished. Value of the second project was 950 000 Euros, and the aim of it was to help the National Audit Office of Lithuania to prepare for efficient and effective work in Lithuanian and European public audit environment; answer the challenges and continue implementation of tasks and initiatives arising from EU integration process and application of the relevant *acquis communautaire*.

Evaluation criteria of the PHARE Twinning project approved by the NAOL covered the whole period of project’s implementation and were implemented in 2005. 180 auditors received training (instead of the planned 100), 19 pilot audits were performed together with short-term experts (instead of the planned 17), 78 activities were carried out (the plan was for 74), there were study visits for the auditors of the NAOL lasting 51 days (instead of the planned 20), training

conference classes were equipped with modern sound and video equipment, main audit management and documentation system components were acquired.

Audit management and documentation system introduced by the NAOL is already used in other European SAIs. European experience shows that it is one of the most suitable tools helping to increase efficiency of audit work.

In the second Twinning project methodological support was provided by specialist of various fields from National Audit Offices of the United Kingdom, Sweden, Denmark, and Portugal.

On the request of the National Audit Office, SIGMA has conducted the second Peer Assistance Review which was finished in 2006.

SIGMA experts consulted the NAOL in preparation of Public Audit Strategy for 2006-2010 and Amendments to the Law on the State Control.

Seeking to reform system of public sector accounting and financial statement, the Government approved conception of the reform and implementation action plan. Considering this fact, NAOL submitted a bid for 690 000 Litas (200 000 Euros) of PHARE funds for training of public auditors for assimilation of the new accounting system. The project is oriented towards training, the largest part of which will be the introduction to the new accounting standards, theory and practice, and the changed audit methods. Project implementor will be selected according to the requirements of the Law on Public Procurement according to technical requirements prepared by the NAOL. Financial Memorandum between the European Commission and the National Audit Office should be signed in autumn 2006.

In 2005 project „Development of Qualification of Civil Servants in Fields of Administrational and Personal Skills“ was prepared and submitted to the European Social Fund Agency. Aim of the project is the development of administrational and personal skills of the NAOL employees. During the project administrational training and foreign languages training will be organized for the staff of the NAOL. Total value of the project is 1 094 000 Litas. Duration of project is 2006-2008 (28 months).

Management of Performance Risk

In 2004-2005 NAOL introduced Performance Management Model which is based on management of risk factors using the adequate internal control measures (procedures). In every strategic performance area of the NAOL risk factors were identified which may have a negative influence on performance results, and control procedures were designed to manage this risk.

Main control procedures by areas:

Development of Public Audit

Internal Intranet page is used for presentation of strategic aims and assessment criteria, and dissemination of best practice; there is a system for drawing up and coordinating annual financial and performance audit programmes, there is a standing Public Audit Methodology Commission.

Professional Financial Audit Reports and Opinions

There is a developed methodology for calculating basic scope of audit; there is a continual updating of methodology; audit quality is ensured by the detailed procedures of general and external review; there is a follow-up of recommendations.

Professional and Topical Performance Audit Reports and Recommendations

Continual monitoring system of the main areas is developed and files are constantly run according to it; general and external reviews are performed; a new version of Performance Audit Manual is drafted.

Building of Institutional Image and Cooperation with Interested Parties

There is a monitoring of the media publications on audits and the NAOL; information is constantly gathered on issues topical for the Seimas and the public; audited entities are surveyed.

Effective Personnel Management and Training in the Institution

A package of entering tests for those who want to start working for the National Audit Office of Lithuania is prepared; a system for assessment of the staff competencies and drawing up of personal development plans; training plans are drafted on the basis of personal development plans.

Ensuring Regularity and Effectiveness of Financial and Material Resources

Public procurement regulations are confirmed; procedures ensuring ex ante, current and ex post control are designed in financial control regulations.

Use and Development of Information Technologies

There was established a standing Information Technologies Management Committee which decides on all issues related to IT development; confirms procedures for using hardware and software.

Information Management

Main risk factors which may influence results of this area were identified; analysis of institutional information development was performed; internal communication and information dissemination strategy is under development.

National Audit Office of Lithuania has become a modern, efficient institution deserving the name of the Supreme Audit Institution. It has developed fairly good audit methodologies and has managed to use technical assistance which was provided to it. Positive impact of the NAOL is also noticeable in the public sector.

Nicolas John Treen, chief administrator of SIGMA

Quality Control System

In the work of the NAOL we emphasize that our priority is the quality of public audit. Quality may be achieved only by constantly assessing it and allowing auditors to raise their professional qualification.

There are two stages of public audit quality assessment system: internal and external review.

Aim of internal review is to ensure audit quality in a certain audit and at the same time – appropriate level of assurance of audit results.

Aim of external review – dissemination of the best practice, development of methodology, and finding out the need for professional training in various fields.

CHAPTER II

ACTIVITY

- 2.1. Area of Public Accounts and State Revenue Audit
- 2.2. Area of European Union Financial Assistance Audit
- 2.3. Financial Audit Area
- 2.4. Performance Audit Area
- 2.5. Other Activities

2.1. PUBLIC ACCOUNTS AND STATE REVENUE AUDIT AREA ENHANCING OF THE PARLIAMENTARY CONTROL

Aim of the public accounts and state revenue audit is to ensure the proper evaluation of the state revenue, and to give opinion on whether financial reports of the state as a whole are properly drafted in accordance with requirements of legal acts, and whether material assumptions on the basis of which draft state budget is formed are sound.

Implementing Strategic goal No. 1, established in the *Strategic Activity Plan of the National Audit Office for 2005-2007* – to help enhance parliamentary control exercised by the Seimas in the area of public accounts and state revenue audit, NAOL achieved the planned results (Table 5).

Evaluation Criterion	Plan for 2005	Fact in 2005
<u>Results:</u>		
1. Completely and partially implemented recommendations in the area of public accounts and state revenue (per cent)	87	93
<u>Product:</u>		
1. Number of drafted mandatory opinions for the Seimas (including Annual Report of the NAOL) per one auditor (units)	1	1
2. Number of implemented revenue audit projects per one auditor (units)	1	1
3. Number of implemented financial audit projects in the area of the state revenue reports (VP-1 forms) per one auditor (units)	1	1

Table 5. Comparison of the achieved results with evaluation criteria designed in the Strategic Activity Plan in the area of public accounts and state revenue audit

Opinions on the State Reports

In 2005 NAOL submitted 4 mandatory opinions for the Seimas: on the account of the execution of the 2004 state budget, opinion on the public debt, opinion on the state-owned property, and opinion on the draft state budget 2006.

Examples of the Audit Impact

Taking into account recommendations of the NAOL given in 2005, the Government approved conception of reform of public sector accounting and financial statement system. Ministry of Finance worked out and approved modernization project of accounting system, and the European Commission made a decision on approval and financing of this project.

Having considered NAOL opinions on the account of the execution of the 2004 State budget and on the public debt, Seimas Budget and Finance Committee suggested to the Government to take into consideration NAOL recommendations to improve accountability to the Seimas, as well as collection of debts to the state, activity of internal control services, and control of the use of European Union financial assistance etc. Seimas Budget and Finance Committee also made suggestions to the Government on improvement of the state budget process and reduction of number of public institutions and agencies (appropriation managers).

Taking into consideration NAOL recommendations, Seimas established by its Resolution on 2003 Report on the State-owned Property that while accounting and financial statement of the state property is not kept and designed following accounting and financial statement standards approved by the reform of public sector accounting and financial statement system, Seimas approval procedure for annual reports on the state-owned property will not be applied.

Revenue Audits

In 2005 public audits of Evaluation of Measures Against Value Added Tax (hereinafter – VAT) Fraud in Stages of Taxpayers Registration and Selection for Checks of VAT Payers in the State Tax Inspectorate and Vilnius and Šiauliai Counties' State Tax Inspectorates were performed.

Aim of NAOL audits was to evaluate whether activities carried out by the State Tax Inspectorate against VAT fraud are effective and efficient, and whether they operate properly in registration of VAT payers and performance of selection for tax checks.

Public audit of evaluation of account of taxes and other payments into budgets was carried out in the State Tax Inspectorate.

Examples of Audit Impact

State Tax Inspectorate:

- seeking to prevent persons who plan to commit fraud to register as VAT payers, increased significantly and regulated in detail VAT payers' registration procedures, and improve risk assessment and selection for checks systems;
- took steps to harmonize and register provisions of operating information systems and specifications of projects in the order established by legal acts. It will let to better control compatibility and integration of all the state information systems;
- regulated in more detail internal control procedures of drafting account of taxes and other payments into the state and municipal budgets and funds, defined functions and responsibilities of units and responsible persons.

2.2. AREA OF EUROPEAN UNION FINANCIAL ASSISTANCE AUDIT PROTECTION OF EUROPEAN UNION FINANCIAL INTERESTS

Aim of European Union financial assistance is to ensure that mandatory audit of European Union (hereinafter – EU) financial assistance would be carried out in time, properly, and according to the rules established by the European Union.

Implementing Strategic goal No. 2, established in the *Strategic Activity Plan of the National Audit Office of Lithuania for 2005-2007* – to promote transparent and efficient management and use of the EU financial assistance and to protect financial interests of European Union, NAOL achieved the planned results (Table 6.).

Evaluation Criterion	Plan for 2005	Fact in 2005
<u>Result:</u>		
1. Completely and partially implemented recommendations (per cent)	85	89
<u>Product:</u>		
1. Number of implemented EU financial assistance public audit projects per one auditor (units)	0,33	0,34

Table 6. Comparison of the achieved results with evaluation criteria designed in the Strategic Activity Plan in the area of the European Union funds audit

Following Seimas Resolution No. IX-1667, National Audit Office of Lithuania was assigned to perform winding-up and certification audits of the EU financial assistance, which are established in international treaties and European Union Regulations. In execution of this function NAOL issued 7 public audit reports which were submitted to appropriate institutions in 2005.

There were performed two EU Structural Funds assistance audits:

Evaluation of the Management and Control System of EU Structural Funds Assistance Developed in the Republic of Lithuania gave 53 recommendations for improvement of the system.

Evaluation of Bid Selection System Developed in the Republic of Lithuania of EU Structural Funds Projects gave 35 recommendation for improvement of the system.

There were performed two winding-up and one interim audit of *Cohesion fund* projects (Pre-Accession Structural Assistance Fund for Environmental Protection and Transportation, hereinafter – ISPA).

29 recommendations, part of which were implemented during the audit, were presented on **winding-up audit of „Development of the Via Baltika Road in 2000-2003“ project.**

10 recommendations were given **in the winding-up audit of "Technical Aid for Development of the Railway Kreta Corridor IXB, IXD, and I“ project.**

During the interim audit of „Technical Assistance for Designing of Environmental Sector Projects“ 18 recommendations were given, part of which were implemented during the audit.

80 recommendations were given **in certification audit of the European Agricultural Guidance and Guarantee Fund (hereinafter – EAGGF) Guarantee Section Expenditure Accounts for 2004.**

42 recommendations, part of which were implemented during the audit, were presented in **Certification Audit of Special Accession Programme for Agriculture and Rural Development (hereinafter – SAPARD) Expenditure Accounts for 2004.**

Examples of Audit Impact

All of the audit reports mentioned above were submitted to the European Commission.

Audits of management and control systems of Structural Funds are the interim results of winding-up audits of Structural Funds programmes audits, designed in the long-term (up to 2009) winding-up audit strategies. European Commission uses results of system audits performed by the

NAOL in order to evaluate and supervise the efficiency of management and control of structural assistance funds.

Results of winding-up audits of the Cohesion fund projects are used by the European Commission for evaluation of the efficiency of management and control of assistance funds and making of decision on final transferring of funds' residue for projects.

On the basis of results of certification audit of EAGGF Guarantee Section and SAPARD Expenditure Accounts, European Commission made decisions on certification of annual expenditure.

Facts detected during Certification of SAPARD Expenditure Accounts for 2004 audit were discussed in the Seimas Provisional Investigation Commission for the investigation of possible public and private interests conflict of politicians of the Republic of Lithuania.

As of March 1 2006 European Commission had made no decision on the compliance of expenditure with the Regulations of the Community.

In 2005 two audit missions of the European Court of Auditors on the EAGGF Guarantee Section Expenditure and five audit missions from different Directorates General of the European Court of Auditors on the effectiveness of management and control systems of the EU Structural and Cohesion Funds, EAGGF Guarantee Section and use of SAPARD assistance were carried out. During three of the missions strategy, audit organization and performance of the certification and winding-up audit conducted by the NAOL was assessed.

This component of the project (EU Financial Assistance Audits) is very significant because of the public resonance of the use of funds. As a certifying institution NAOL performs a very important role ensuring sound management and accounting of the EU funds. Staff of the National Audit Office of Lithuania are well motivated, competent, and their confidence in their knowledge is increasing.

PHARE Twinning project LT/2003/IB/FI/03 final report

2.3. FINANCIAL AUDIT AREA

PROMOTION OF PROGRESSIVE FINANCE MANAGEMENT SYSTEMS IN PUBLIC SECTOR

Aim of financial audit – assessment of data of financial statements and/or other reports as well as an assessment of regularity of management, use, and possession of public funds and property and use of them as intended by law; and issuing an independent audit opinion.

When implementing the strategic objective 3 of the *NAOL Strategic Action Plan for 2005-2007* (to promote progressive finance management systems in public sector) the NAOL achieved intended results (Table 7).

Assessment criterion	2005 planned	2005 achieved
For result:		
1. Unqualified opinions within a separate category of auditees	90	92
2. Part (%) of recommendations implemented fully or partially	87	97
For product:		
1. Part of State Budget appropriations audited by the NAOL (%)	76	82
2. Proportion between appropriations audited and costs of the audit (kLTL) (planned long-term increase of efficiency is 2%)	1 323	1354

Table 7. Comparison of results achieved with criteria set forth in the Strategic Action Plan for the Financial Audit

According to the new version of the Law on the State Control adopted in December 2005 the Financial Audit became as well a regularity Audit including the assessment of regularity of management, use, and possession of public funds and property and use of them as intended by law; and issuing an independent audit opinion.

In 2005 the NAOL carried out financial audits in 100 state institutions and bodies, heads of which were appropriation managers of 2004 State Budget.

In addition, at 12 local governments the NAOL carried out a combined assessment of the use of target subsidies for implementation of central government functions (delegated to local governments), and use of a „pupils‘ basket“ funding.

For programmes implemented by the audited entities it was allocated MLTL 11,359 from the State Budget (in 2003 the public audit covered MLTL 10,120), which makes 83% of the total amount of appropriations of the 2004 State Budget (MLTL 13,753).

The list of auditees subject to financial audit is given in appendix 2. The NAOL delivered the following audit opinions after financial audits were carried out (Table 8).

Opinions on financial statements and use of special (target) subsidies by local governments	Total		Including					
	Financial statements for		Higher schools and science institutions		Courts		Local governments	
	2003	2004	2003	2004	2003	2004	2003	2004
Unqualified	66	39	6	11	26	-	-	1
Qualified	40	64	6	16	10	20	-	6
Adverse	2	5	1	1	1	1	-	1
Disclaimer of opinion	5	4	1	-	-	-	-	4
Total:	113	112	14	28	37	21	-	12

Table 8. 2003 and 2004 public audit opinions on financial statements and use of special (target) subsidies by local governments

Implementing Seimas Resolution No. X-221 of May 24, 2005 on the NAOL Performance Report for 2004 the NAOL focused on issues concerning the regularity of contracts concluded by audited entities and their decisions on management, use, and disposition of state property. E.g. auditors found out that Physical Education and Sports Department gave for free equipment to the limited company Ozo Arena; Vilnius County Administration, in NAOL opinion, poorly controlled the use of state land, i.e. it has amended the approved detailed plan of use of a state land plot at Siesikų g. 15 thus providing conditions for building administrative and dwelling buildings.

Audits of Local Governments

The NAOL is auditing for the second year the use of State Budget funds allocated to local governments.

The NAOL found out that State Budget funds are allocated to local governments not for achieving certain results but just for financing a process. Differently from budgetary entities local governments receive target funds from Seimas without any programmes, objectives, assessment criteria. In addition, there is no accountability to Seimas on implementation of these (delegated) functions.

Examples of audit impact

Following recommendations of NAOL auditors:

The Government has amended rules of State Budget and local governments budgets design and implementation in order to strengthen the control of the use of funds transferred by budgetary entities and improve accountability for the implementation of transfers and use of funds transferred.

The Minister of Finance has approved the Rules on Organising Accounting Process for Budgetary Institutions. This legal act regulates responsibilities and rights of heads and accounting officers of state and municipal entities, seeks to increase responsibility for organising the accounting process and *a priori* financial control of financial statements submitted. The above rules stipulate the procedure of accounting of off-balance funds, process of paying shares in money and assets by shareholders of public (non-profit) institutions; accounting by local governments costs against each function delegated to local governments and funded from the State Budget; accounting of „pupils‘ basket“ funds, etc.

Taking into consideration suggestions made by the Seimas Audit Committee the Government has planned within the approved 2004-2008 Programme to draft amendments of laws

on Social Support for Families with Low Incomes, Payments for Children, Local Governments' Law, and other legal acts.

Since a Law on Amendment of the Local Governments' Law entered into force on January 1, 2006 the calculation and payment of passenger transportation discounts was included into the list of appointed (with limited autonomy) functions of local governments.

During the audit in Vilnius Region Local Government the NAOL found out that administration of the municipality in 2004 has used kLTL 490 of target subsidies not as intended, and requested to return these funds back to the State Budget. After the Municipal County has refused to return money a court action was started. The Highest Administration Court of Lithuania made a decision that Vilnius Region Local Government shall repay kLTL 490 to the State Budget by July 1, 2006.

2.4. PERFORMANCE AUDIT AREA

PROMOTION OF RESULT ORIENTED PERFORMANCE OF PUBLIC ADMINISTRATION BODIES

Performance audit aim – assessment of auditee's public and internal management from the economy, efficiency, and effectiveness point of view; to reveal opportunities for the performance improvement.

When implementing the strategic objective 4 of the *NAOL Strategic Action Plan for 2005-2007* (to promote result oriented management of public administration bodies) the NAOL achieved intended results (Table 9).

Assessment criterion	2005 planned	2005 achieved
<u>For result:</u>		
1. Part (%) of recommendations implemented fully or partially	90	92
<u>For product:</u>		
1. Number of public performance audit projects implemented per auditor	0,64	0,67

Table 9. Comparison of results achieved with criteria set forth in the Strategic Action Plan for the Performance Audit

In public sector the mechanism, which in market conditions ensures the efficient performance of entities is partially replaced by the Performance Audit.

Duly conducted Performance Audit allows to find out performance problems before they might affect the performance.

In 2005 Annual Performance Audit Programme 48 performance audits were planned including 42 performance audits, which should be finished during the same year. 44 audits were actually finished including 24 system audits, 8 audits of State Budget programmes' evaluation, 7 IS assessment audits, 3 performance evaluation audits, and 2 audits were closed after preliminary studies (for comparison: in 2004 37 performance audits were finished including 13 system audits).

Seimas Audit Committee has considered 22 performance audit reports (9 reports of audits concluded in 2004, and 13 concluded in 2005).

The number of auditees covered in 2005 increase from 78 (in 2004) to 124 entities.

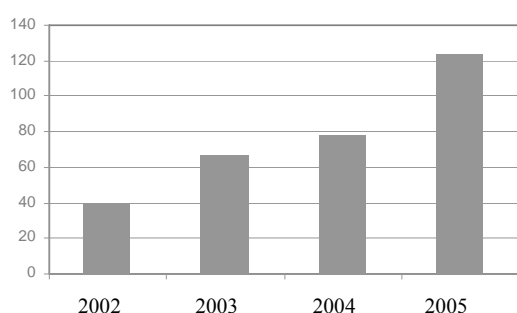


Fig. 4. Comparison of coverage of Performance Audit in 2002–2005 (number of auditees)

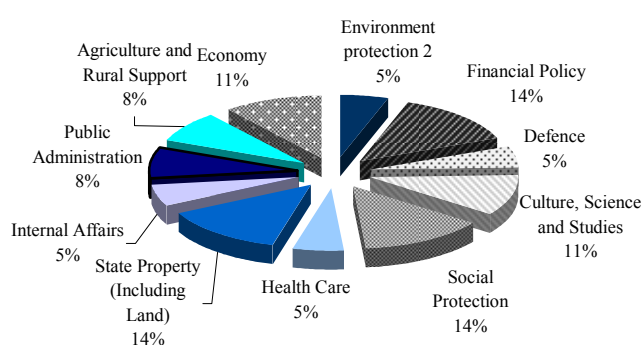


Fig. 5. The structure of the PA by areas

Examples of Performance Audit Impact (Summary)

During the audit of use of funds transferred to local governments for providing social support the NAOL found out that MLTL 155 of funds allocated for social support were used by local governments for other purposes as it was allowed by the Law on Budget.

People seeking for social support money are made to fill in a sophisticated form of application, to collect by themselves certificates from different institutions.

Audit impact

In Art. 3 of the Law on Financial Indicators of the State Budget and Local Government Budgets for 2006 Seimas stipulated that special target subsidies for social payments and compensations, which were not fully used when implementing the budget may be in the 4th quarter used only for funding other social support activities as stipulated by the Government or other body authorised by the Government. Seimas passed a Resolution and requested the Government to improve administration of funds allocated for social support and to simplify the procedure of receiving social support.

Having audited the Fund for Ignalina Nuclear Power Station Closing the NAOL found out that funds' management was not assigned to a body authorised by the Government. Fund's money is transferred to entities without contracts stipulating the purpose of funds use, responsibilities of contract sides, implementation deadlines, controls. This does not ensure sound management and control of Fund's money.

Legal acts that regulate Fund's activities do not stipulate responsibility of Fund's Council for its decisions and its accountability to the Government. The Fund's Council did not use an opportunity, which was provided by the law since 2002 to invest temporarily unused money into securities.

Audit Impact

The NAOL delivered recommendations to the Government, Council of the Fund, ministries of Economy and Finance for improvement of legal acts regulating Fund's activities in order to ensure efficient management and control of use of Fund's money. It was suggested that Fund's Council together with ministries of Economy and Finance should design procedures for disposal of assets, which will be not in use after the 1st block of the Ignalina power station will be closed, ensuring that money earned will be transferred to the Fund's account.

Seimas Audit and Economy Committees considered the public audit report on Fund for Ignalina Nuclear Power Station Closing and adopted a joint resolution. An action plan for the Government, Fund's Council, and Ministry of Economy was drawn up; activities for implementing recommendations designed, deadlines for their implementation set..

Having assessed the implementation of social insurance system reform the NAOL pointed out that the Government takes all liabilities related to the transfer of money for private pension funds. The amount of accumulated pension is not granted neither by the state, nor by funds; in case of bad investments all consequences will be laid on funds' clients. There is a risk that decreased pensions might increase government expenses for social support of persons with low incomes.

Audit Impact

Following the assignment given by the Prime-Minister responsible institutions considered findings and recommendations of the social insurance system reform assessment at the joint meeting; risk mitigating activities were designed. Seimas Committee on Social Affairs and Labour suggested the Government to plan long-term sources for funding the pension reform in order to prevent the deficit of the State Social Insurance Fund budget caused by the transfer of certain part of social insurance payments for pension funds.

Having assessed the use of state investments allocated following the 2004-2006 programme the NAOL found out that part of projects submitted to the Ministry of Finance does not meet procedure approved by the Government and methodology approved by the Minister of Finance. However the Ministry of Finance included such projects into the draft State Investment Programme for 2004-2006.

Auditors found out that Ministry of Health did not implement timely the investment project „Implementation of Lithuania Health Project“. The prolongation of the project implementation will require additional State Budget expenses that were not planned at the start of the project; according to a preliminary auditors' forecast the amount spent during the project prolongation might total about kLTL 683.

Audit Impact

The NAOL recommended to the Government to ask appropriation managers to reassess the need and implementation possibilities of projects that last for 10 years and more and if necessary undertake actions for their adjustment or termination. In addition, the NAOL recommended taking measures in order not to include into the State Investment Programme those projects that do not meet procedure approved by the Government and methodology approved by the Minister of Finance.

The NAOL recommended to the Ministry of Finance not to suggest including the above projects into the draft State Investment Programme.

Seimas Audit Committee considered the use of state investments allocated in 2004 following the 2004-2006 Investment Programme and made a decision to ask the Government to inventory unfinished construction objects that were not included into the draft of the State Investment Programme for 2006-2008 where however state funds have been invested earlier and to make decisions within appropriate competence concerning the further use of these objects; to design the strategy of state capital investments for 2007-2013; each year to submit to Seimas report on the State Investment Programme implementation.

The NAOL assessed as positive the contribution of the Ministry of Justice into the Bailiff Reform implementation although some shortcomings were found in liquidating court bailiffs' offices, transferring enforceable cases and money collected. Money collected in favour of plaintiffs and transferred on the ministry's account was used not for intended purpose.

After the reform the amount of unfinished enforceable cases is growing up, there are no criteria for assessment of the efficiency of court decisions execution. Charges for executing court decisions are nor grounded economically – they are not related to actual costs of decision execution.

Audit Impact

The Ministry of Justice informed the NAOL that it is currently implementing audit recommendations: a commission was established for paying money from Ministry's account to plaintiffs, funds used not for intended purposes were restored. The efficiency of court decisions execution is analysed, a new decision execution procedure is designed.

During the audit of Collection, Distribution and Use of Environmental Pollution Taxes the NAOL found out that information and control system, which would allow to find out an exact number of polluters, the scale of pollution, and ensure the collection of pollution taxes, is still not in place. It was planned to collect in 2003-2004 MLTL 101.6 pollution taxes into the State Budget however actual amount was MLTL 36.7 or 37% of the planned income.

Audit Impact

It was recommended to the Ministry of Environment to consider establishment of data basis of enterprises, which are potential pollution taxpayers; to design rules of information management and data adjustment between authorised bodies.

It was recommended to the Ministry of Environment together with the Ministry of Finance, Department of Statistics under the Government, and the state enterprise „Register Centre“ to review legal acts regulating actions of institutions while estimating the number of polluters, the scale of pollution, and administrating pollution tax collection; to submit appropriate suggestions for improvement.

During the audit on Evaluation of Control of Illegal Working Phenomena the NAOL found out that information on illegally employed persons provided by the State Labour Inspectorate is not reliable, and control of illegal labour cases conducted by the Inspectorate is not effective. While 1580 persons were detected as working illegally reports against employers were drawn up only for 535 persons, cases for 361 persons were brought to court, 229 persons were fined, and 193 of these fines were lower than stipulated by the law.

Audit Impact

Recommendations were focused on improving control of illegal labour phenomena, it was recommended to use good practice of foreign countries. The report was considered by Seimas Audit and Social Affairs Committees. The latter suggested improvements of the State Labour Inspectorate work.

The State Labour Inspectorate following the recommendations provided in the audit report designed 42 activities for 2006.

Within a short period of time you managed to learn a lot and now you are doing assigned work well. It is worth noticing that the NAOL works were efficiently – you produce about 45 performance audit reports each year. This number is really impressive. For example, in Denmark we produce two times less performance audit reports although our human resources are approximately the same.

Jens Risbjerg, Audit Team Manager, NAO Denmark, SIGMA expert

2.5. OTHER ACTIVITIES

Assessment of information systems

State institutions and state enterprises increasingly use information systems. They became an integrated part of any institution and organisation. Rather often their performance, financial and economic success depends on these systems. Development of a reliable information system becomes one of strategic objectives and part of strategic plan of each institution or organisation.

The existence of information systems does not change objectives of a traditional audit however it affects the ways audit is carried out. If accounting and other information processing systems are computerised an auditor should decide whether internal controls are relevant, i.e. whether integrity, reliability, and comprehensiveness of data is ensured. For these reasons the NAOL has carried out 5 specialised information systems assessments.

Since the NAOL became a Certifying Body¹ it has to conduct certifying audits of ISPA and EAGGF Guarantee Section expenditure accounts including audits of information systems. In 2005 2 such audits have been conducted.

Recommendations provided during the assessment of information systems are included into audit reports. These recommendations are aimed at improving internal control in state institutions, i.e. at ensuring safety of information assets, integrity of data; they help to be more efficient in achieving corporate objectives, to use resources more rationally.

Consideration of Complaints and Requests from Population

During 2005 267 complaints and requests were received, 142 were considered (written answers given), 93 passed to law enforcement and other institutions within their

¹ Seimas by its Resolution No. IX-1667 of July 1, 2003 assigned the NAOL to carry out audits of the EU support, to submit appropriate audit reports and opinions.

competence, 32 anonymous complaints and requests were rejected. The majority of issues considered were related to land reform and real estate (19 %), state management (16 %), social and welfare (16 %), issues within court competence (9 %).

International Co-operation

In 2005 the NAOL further developed its international development, was looking for new forms and opportunities of such co-operation.

During the 6th Congress of the European Organisation of Supreme Audit Institutions (hereinafter referred as EUROSAI), which took place in 2005 in Bonn, Auditor General of the Republic of Lithuania was elected as vice-chairwoman of the EUROSAI Governing Board.

The NAOL is full member of the International Organisation of Supreme Audit Institutions (INTOSAI) since 1992. It is involved into INTOSAI activities being member of Professional Standards Committee subcommittees on Accounting and Reporting, Internal Control Standards, Financial Audit Guidelines, and Compliance Audit; IT Audit and Public Debt Committees, Privatisation, Programme Evaluation, and Environmental Auditing working Groups. The NAOL is proactively involved in developing INTOSAI Guidelines for Internal Control Standards for Public Sector. In addition, the NAOL is member of EUROSAI Environmental Auditing and IT Audit working groups and has observer status in the EUROSAI Training Committee.

Since Lithuania became a EU member state its co-operation with the EU Commission and the European Court of Auditors became more intensive. Our institution is involved in Contact Committee activities and work of working groups considering specific issues. The NAOL takes part in activities of the following working groups: Audit Manuals and Methods Development, SAI Reports on the Management of EU Funds, Structural Funds, and VAT.

In 2005 NAOL specialists took part in EUROSAI IT Management and INTOSAI Performance Audit and Fraud and Irregularities Detection (Riga) workshops as consultants and facilitators.

In spring 2005 following the invitation by the President of the Russian Federation Chamber of Accounts Mr. S. Stepashin and in autumn 2005 following the invitation by the Auditor General of the Republic of Latvia Ms. I Sudraba NAOL IT assessment specialists facilitated the self-assessment of IT of the above SAIs.

NAOL has organised the following events in Lithuania:

together with EUROSAI Training Committee and IT Working Group a workshop in Vilnius „IT self-assessment in SAIs“;

meeting of the SAIs working group on VAT. Representatives from the Ministry of Finance, Government Chancellery, State Tax Inspectorate, EU member states SAIs took part in the meeting; final conference of the PHARE Twinning project „Establishing a progressive SAI“.

Co-operation with Baltic and Nordic countries becomes more and more important. The NAOL takes proactive part in Baltic and Nordic countries SAIs meetings, which take part on an annual basis in one of Baltic countries by rotation.

The NAOL has traditionally good relations Polish SAI. At the same time co-operation with other SAIs of neighbouring countries such as Byelorussia, Russia, and Ukraine is also among NAOL priorities.

The geography of the NAOL international co-operation is extending. In 2005 relations with Chinese SAI were established.

The NAOL takes part in joint or parallel audits with SAIs of other countries:

In 2000 the Contact Committee of Heads of the SAIs established a working group including a number of member states to carry out a joint audit of EU Structural Funds. In 2004 the Contact Committee assigned the working group to continue SF audits and to conduct one more that is a review of the processes in place for identifying, reporting and following up on irregularities. The NAOL carried out this audit alongside with 14 other members states SAIs. The audit report was submitted to the working group on February 28, 2006

In 2005 a joint audit was started together with Polish SAI „Co-operation of the State Tax Inspectorate with tax administrators of other EU countries on exchanging information related to VAT fraud“.

We may remember the efficient work at the first stage of the work. Let's mention just 2 main works done: members of the working group designed and developed an IT self-assessment approach and presented a report on the e-government. SAIs which made the major contribution are Swiss SAI (leading the IT self-assessment project), Portuguese SAI (leading the e-government project, contacting EUROSAT Training Committee, and hosting the first workshop on the IT management self-assessment), and Lithuanian SAI (hosting the second workshop on the IT management self-assessment).

Review of 2005 achievements by the Chairwoman of EUROSAT IT Working Group and Auditor General of the Netherlands Saskia J. Stuiveling

PART III

EXTRACT FROM THE FINANCIAL STATEMENTS OF THE NAOL

Assets and Liabilities

Indicator	31.12.2004	31.12.2005
Long-term material assets	15 135.1	16 530.7
Stocks	95.5	173.2
Short-term assets	1 265.9	1 202.9
Cash	8.9	6.8
Money to be received (debts)	15.4	168.6*
Depreciation of long-term assets	5 053.5	6 146.8
Long-term assets fund	10 081.6	10 383.9
Short-term assets fund	1 265.9	1 202.9
Other funds	53.3	42.5
Payable money (credits)	102.1	177.0**

Table 10. Assets and liabilities of the NAOL (kLTL)

* The major amount of debts (kLTL 148.3) comprises from advance payment for renovation of the administration building paid at the end of 2005.

** The credit (kLTL 124.3) comprises of repair works on long-terms assets paid in 2006. The debt for long-term assets (kLTL 27.4) acquired will be paid in 2006 as set forth in the contracts with the „Pricewaterhouse Coopers“ Ltd. according to the investment project „Strengthening Functional Capacities of Public External Audit Aimed at Practical Implementation of Acquis“

Use of Appropriations

	2004		2005	
	Appropriation plan (amended)	Appropriations used	Appropriation plan (amended)	Appropriations used
Appropriations in total	17 912.1	17 911.8	19 282.0	19 279.1
including:				
payroll	12 214.2	12 214.2	13 048.0	13 047.3
social insurance payments	3 741.9	3 741.9	4 064.4	4 064.0
goods and services	1 956.0	1 955.7	2 125.9	2 124.2
social payments			43.7	43.6
Appropriations for	3 206.1	2 986.0	1 325.0	1 097.0

acquiring assets in total				
including:				
construction works (buildings)	2 508.3	2 508.3	220.0	220.0
acquisition of long-term assets	697.8	477.7	1 105.0	877.0*
Appropriations in total	21 118.2	20 897.8	20 607.0	20 376.1

Table 11. Use of appropriations allocated for the NAOL (kLTL)

* The co-financing of the special PHARE programme „Strengthening Functional Capacities of Public External Audit Aimed at Practical Implementation of Acquis” kLTL 555 were allocated. kLTL 327 were used for implementation of the project „Strengthening Functional Capacities of Public External Audit Aimed at Practical Implementation of Acquis”. According to the contract the investment part of the project shall be implemented during 2005-2006, therefore remaining funds will be used in 2006.

Use of Resources Allocated to the NAOL

The NAOL used 85% of funds allocated for its main activity (audit). The following figure shows the allocation of funds for individual activities (types of audit) in 2004 and 2005.

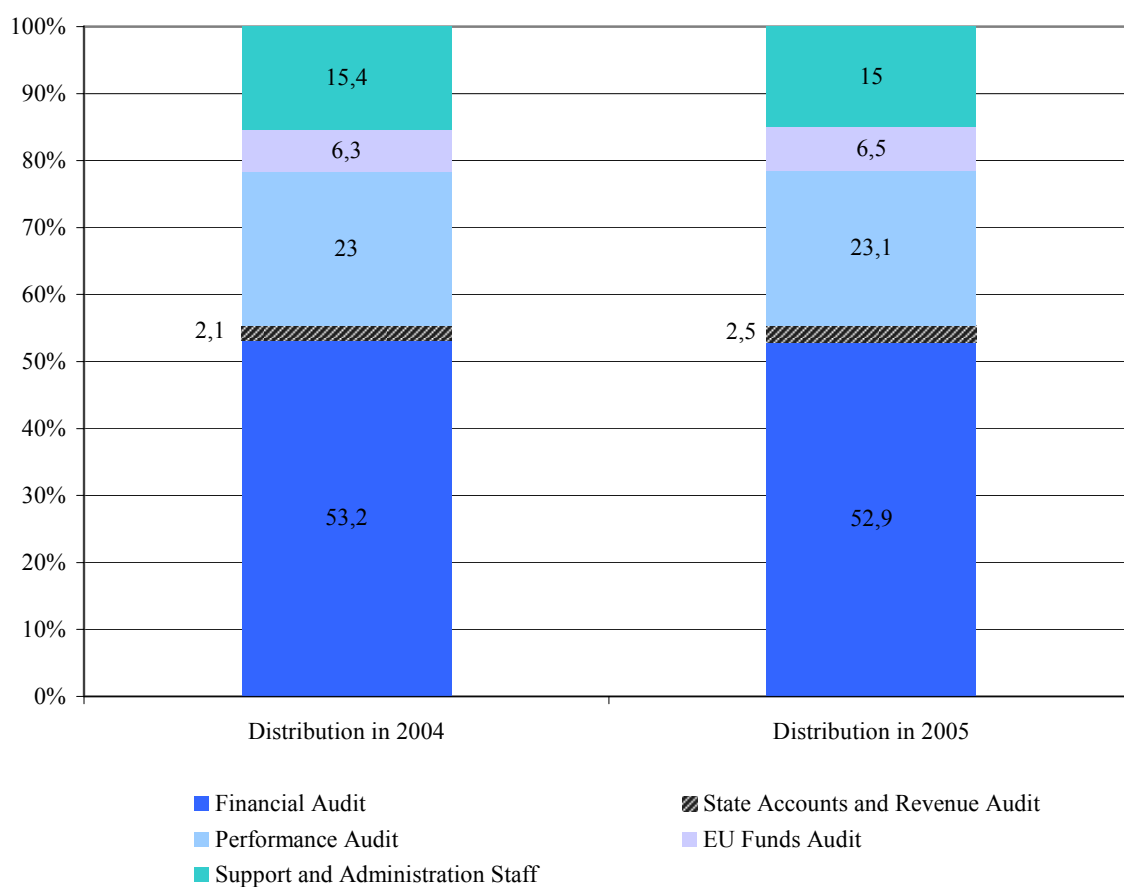


Fig. 6. Comparison of appropriations used for individual types of activities in 2004 and 2005

In 2005 structural changes took place, the number of EU funds auditors was increased therefore the relative expenditure for financial audit decreased in comparison with 2004. In addition, it is necessary to note that the number of performance and EU funds audits increased in comparison with 2004.

THE LIST OF PUBLIC AUDITS AND CONCLUSIONS SUBMITTED IN 2005

Obligatory Conclusions Submitted to Seimas:

Conclusions on 2004 State Budget Execution Report,

Conclusions on 2004 State Debt Report,

Conclusions on 2004 Report on State Property,

Conclusion on 2006 Draft State Budget.

Financial Audit Reports on EU Aid Funds:

Evaluation of Management and Control System of the EU Structural Funds Aid, Produced in the Republic of Lithuania,

Cohesion Fund (ISPA) Project 2001/LT/16/P/PA/002 "Support for Drafting of ISPA Environmental Protection Projects",

Cohesion Fund (ISPA) Project 2000/LT/16/P/PA/001 "Technical Aid for Development of the Railway Kreta Corridor IXB, IXD, and I",

Public Audit Report on Cohesion Fund (ISPA) Project 2000/LT/16/P/PA/001 „Via Baltika Highway Development in 2000–2003“,

Certification Audit of the EAGGF Guarantee Section Expenditure Accounts for 2004,

Certification of SAPARD Expenditure Accounts for 2004.

Area	List of Main Performance Audits Concluded
Environment Protection	<ul style="list-style-type: none"> – Coordination of Metrological Activities of the State Metrology Service under the Ministry of Environment of the Republic of Lithuania, – Implementation of Economic Activities and Urbanisation

	Development Regulation Functions by the Protected Areas Service under the Ministry of Environment.
Financial Policy	<ul style="list-style-type: none"> – Assessment of the Draft State Budget for 2006, – Use of State Investments in 2004, Allocated in the Programme for 2004-2006, – Debt and Borrowing of Municipalities, – Collection, Distribution and Use of Environmental Pollution Taxes, – Measures Against VAT Fraud in VAT Payers' Registration and Selection for Checks Stages, – Execution of Financial Liabilities to the State.
Defence	<ul style="list-style-type: none"> – Reorganisation of Lithuanian Army, – Preparation for International Missions.
Culture, science, and studies	<ul style="list-style-type: none"> – Expedience of scientific investigations ordered by ministries, – Implementation of the Programme of the Development of the Student Crediting System, – Evaluation of the Programme „Subsidies for Theatres and Concert Agencies“, – Development of Physical Culture and Sports.
Social Protection	<ul style="list-style-type: none"> – Use of State Funds Transferred to Municipalities for Providing of Social Support, – Reform of the Social Insurance System, – Control of Illegal Working Phenomena, – Programmes Implemented by County Administrations „Care and training of Adults and Children“, and „Social Care of Adults and Children“, – Programme „Trade in Human Beings, and Control and Prevention of Prostitution“.
Health Care	<ul style="list-style-type: none"> – Primary Health Treatment, – Expenditure for Compensated Medicine.
State Property (including land)	<ul style="list-style-type: none"> – State Control of Land Use, – Audit of the Land Fund Administration, – Evaluation of Use of Land Plot situated in Vilnius, Siesiku str. 15, and Funds Used for Construction of Buildings in this Land Plot, and Use of These Buildings, – Transfer of Real Estate (acquisition of real estate ownership)

	rights at Trakų g. 9/1, Vilnius), – Privatisation of Stock Company „Vakarų skirstomieji tinklai“.
Internal Affairs	– Development of the Internal Affairs Infrastructure, – Local Public Safety.
Public Administration	– Implementation of Bailiff Reform, – Programme „Development and Computerization of Courts‘ Material Facilities“, – Use of Resource for Implementing Functions of the Prosecutor General Office.
Agriculture and Rural Support	– Use of the State Budget Funds for Land Melioration, – Rural Support Programme, – Organisation and Implementation of Obligatory Works for Forest Restoration, Protection, and Care.
Kiti	– Use of Resources of the Ignalina Nuclear Power Plant Exploitation Termination Fund, – Impact of the Price of Natural Gas on Cost Price of Heat and Electric Energy, and on the Users. – Implementation of Energy Saving Projects, – Special Kaliningrad Transit Programme, – Use of Payroll Funds.

Audit Area	List of Financial Audits Concluded
Seimas and institutions accountable to Seimas	– State Security Department, – Office of the Inspector of Journalistic Ethics, – State Cultural Heritage Commission, – Chief Official Ethics Commission.
President’s Office and institutions accountable to it	– President’s Office, – Lithuanian 1000th Jubilee Directorate under the Office of the President of the Republic of Lithuania.
Central Government and state institutions	– Government’s Office, – Department of Physical Education and Sports, – Weaponry Fund of the Republic of Lithuania, – Communications Regulatory Authority, – State Control Service for Tobacco and Alcohol, – Archive Department,

	<ul style="list-style-type: none"> – Department of National Minorities and Lithuanians Living Abroad, – Chief Administrative Disputes Commission, – State Science and Studies Foundation, – Assessment of Statistic Department Report on State Property Use in 2004.
County Governor Administrations	<ul style="list-style-type: none"> – Alytus, – Kaunas, – Klaipėda, – Marijampolė, – Panevėžys, – Šiauliai, – Tauragė, – Telšiai, – Utena, – Vilnius.
Ministry of Environment	<ul style="list-style-type: none"> – Ministry of Environment.
Ministry of Finance and subordinate institutions	<ul style="list-style-type: none"> – Ministry of Finance, – Assessment of 2004 State Budget Implementation Report, – Assessment of 2004 State Debt Report, – Tax and other Payments Collection by the State Tax Inspectorate, – Customs department, – State Tax Inspectorate.
Ministry of Defence	<ul style="list-style-type: none"> – Ministry of Defence.
Ministry of Culture and subordinate institutions	<ul style="list-style-type: none"> – Ministry of Culture, – Cultural Heritage Department, – National M. K. Čiurlionis Muzeum.
Social Protection and Labour Ministry	<ul style="list-style-type: none"> – Social Protection and Labour Ministry.
Ministry of Transport and Communications and subordinate	<ul style="list-style-type: none"> – Ministry of Transport and Communications, – Lithuanian Maritime Safety Administration, – Lithuanian Road Administration,

institutions	– State Inspectorate for Maritime Inland Waters.
Ministry of Health	– Ministry of Health.
Ministry of Education and Science	– Ministry of Education and Science.
Science and Studies	<ul style="list-style-type: none"> – Vilnius University, – Vytautas Magnus University, – Klaipėda University, – Kaunas Medicine University, – Šiauliai University, – Lithuanian Academy of Physical Education, – Institute of Animal Science of Lithuanian Veterinary Academy, – Lithuanian Agriculture Institute, – Food Institute of Kaunas University of Technology, – Water Management Institute of Lithuanian University of Agriculture, – Lithuanian Forestry Institute, – Culture, Philosophy and Arts Research Institute, – Lithuanian Literature and Folcklore Institute, – Geology and Geography Institute, – Institute of Immunology of the Vilnius University, – Institute of Mathematics and Informatics, – Institute of Thermal Insulation of the Vilnius Gediminas Technical University, – Institute for Social Research, – Institute of Biotechnology, – Institute of Chemistry, – Institute of Theoretical Physics and Astronomy of Vilnius University, – The Institute of Physics, – Semiconductor Physics Institute, – Institute of Biochemistry, – Institute of Ecology of the Vilnius University, – Institute of the Lithuanian Language, – Institute of Oncology of the Vilnius University, – Lithuanian Institute of History.

Ministry of Justice and subordinate institutions	<ul style="list-style-type: none"> – Ministry of Justice, – Prison Department under the Ministry of Justice, – Lithuanian Metrology Inspectorate.
Ministry of Internal Affairs and subordinate institutions	<ul style="list-style-type: none"> – State Board Protection Service, – Police Department, – VIP Security Department under the Ministry of Interior.
Ministry of Foreign Affairs	<ul style="list-style-type: none"> – Ministry of Foreign Affairs.
Ministry of Economy	<ul style="list-style-type: none"> – Ministry of Economy.
Ministry of Agriculture and subordinate institutions	<ul style="list-style-type: none"> – Ministry of Agriculture, – National Land Service under the Ministry of Agriculture, – Fisheries Department under the Ministry of Agriculture.
Courts	<ul style="list-style-type: none"> – Highest Court, – Panevėžys District Court, – Kaunas City District Court, – Klaipėda City District Court, – Panevėžys City District Court, – Šiauliai City District Court, – Vilnius City 1st District Court, – Vilnius City 2nd District Court, – Vilnius City 3rd District Court, – Vilnius City 4th District Court, – Alytus District Court, – Kaišiadoriai District Court, – Kaunas Region District Court, – Kėdainiai Region District Court, – Lazdijai Region District Court, – Marijampolė Region District Court, – Pakruojis Region District Court, – Prienai Region District Court, – Rokiškis Region District Court, – Šilalė Region District Court, – Vilkaviškis Region District Court.
Local Governments	<ul style="list-style-type: none"> – Vilnius City, – Kaunas City, – Klaipėda City,

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- Panevėžys City,
 - Šiauliai City,
 - Kaišiadoriai Region,
 - Šalčininkai Region,
 - Šilutė Region,
 - Trakai Region,
 - Ukmergė Region,
 - Vilnius Region,
 - Elektrėnai.
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