



Executive summary of the public audit report

ON THE PROGRESS OF IMPLEMENTING
THE RECOMMENDATIONS OF AUDITS,
"PROGRAMME BUDGET SYSTEM: SETTING
UP ACTION PLANS AND MONITORING
THEIR IMPLEMENTATION", AND,
"MANAGEMENT OF THE PROGRAMME
FOR INVESTMENT IN 2015".

12 October 2017, No. VA-2017-P-60-1-18



SUMMARY

The Importance of Audit

The quality of the strategic planning of the public sector has an impact on the outcomes of the use of budgetary resources and the implementation of public policy in areas important to the public, namely: the assurance of civil security and employment, the accessibility of education, studies, and health care, the development of conditions conducive to economic growth, etc.

Two audits were carried out in 2016 regarding horizontal decision-making – strategic planning and budget management:

- Programme Budget System: Setting up Strategic Action Plans and Monitoring their Implementation¹;
- Management of the Programme for Investment in 2015².

Issues related to budgetary management had also been analysed during the audit on the public budget implementation³ carried out in 2016.

The audits are concerned with the assessment of the management of the Public Programme for Investment, the approval of budgetary funds, the development of strategic action plans of ministries – institutions responsible for the implementation of public policy – the monitoring of their implementation, and the reporting of outcomes. Having conducted the audits, we have submitted a number of recommendations, which, if implemented appropriately, would result in the following:

- approved budgetary funds – approximately 8 billion EUR per year – would be linked with the desired outcomes, the development of strategic actions plans would become clearer, and the information of the public, as well as members of the Seimas on the outcomes of the activities of the public sector, and the use of tax payers' money would be improved;
- the directions, as well as the connection between all public investment would become clearer, and the administrative load of the public sector in planning, monitoring and reporting on the implementation of the Public Programme for Investment would decrease.

In 2017, having assessed the importance of issues regarding strategic planning and the formation of the budget, the 17th government of Lithuania had included them in the list of scheduled activities⁴. We are aware that restructuring the system for strategic planning is a long and difficult process, which requires the participation of all institutions concerned. In order to promote the eventual achievement of the expected results, we, as the institution responsible for submitting recommendations, have to continuously monitor the ongoing changes, and react to them in a timely manner. Considering the foregoing, we have supplemented the public audit programme with an audit, designed to assess the progress made by institutions in implementing the recommendations submitted to them in 2016, during the audits, "Programme Budget System: Setting up Action Plans and Monitoring their Implementation", "Management of the Programme for Investment in 2015", and, "The Correctness of the Consolidated Financial and Budgetary Implementation Reports of the Republic of Lithuania for 2015, and an Assessment of the Implementation of the Public Budget".

¹ 10 October 2016, No. VA-P-60-2-17.

² 10 October 2016, No. VA-P-60-9-16.

³ "The Correctness of the Consolidated Financial and Budgetary Implementation Reports of the Republic of Lithuania for 2015, and the Assessment of the Implementation of the Public Budget", 03 October 2016, No. FA-P-60-6-10-1.

⁴ Government programme implementation plan, approved by Order No. 167 of 13 March 2017 of the Government of Lithuania.

The Goal and Scope of the Audit

The goals of the audit was to assess the progress made in implementing the recommendations of the audits, "Programme Budget System: Setting up Action Plans and Monitoring their Implementation", and, "Management of the Programme for Investment in 2015", namely:

- the elimination of identified shortcomings related to the linking of the approved assignments with the desired outcomes, the development of strategic action plans, the monitoring of their implementation, and the reporting of outcomes (Chapter 1-3);
- positive changes (or lack thereof) in the planning of and reporting on public investment (Chapter 4);
- the likelihood of restructuring the strategic planning and budget formation system in the 1st quarter of 2018 (Chapter 5).

The audit was carried out at the Chancellery of the Government of Lithuania, all 14 ministries, and the National Paying Agency under the Ministry of Agriculture of the Republic of Lithuania. The period of audit: assessment of outcomes – 2015-2016, assessment of planning changes – 2017-2018.

The audit was carried out in accordance with public audit requirements, as well as international standards for supreme audit institutions. A description of the audit methodology and scope is provided in Annex No. 2, "Audit Methodology and Scope". The audit was carried out on the assumption that all documents submitted to the auditors were correct, complete, and final, and their copies match the originals.

Conclusions

1. Major changes to the management of the Public Investment Programme are lacking, because the recommendations submitted to the Chancellery of the Government of the Republic of Lithuania, which could lead to systemic changes, are yet to be implemented. The Chancellery plans to implement most of said recommendations at the time of performing the restructuring of the strategic planning and budgetary formation system, included in the implementation plan of the programme of the 17th government of Lithuania (Chapters 1-4).
2. There is a risk that the restructuring of the strategic planning and budgetary formation system, planned by the government, will not be implemented in a timely manner, because despite of the scope of the scheduled work, and the fact that only 6 months remain until the deadline, the Chancellery is not sufficiently focused on organising said work (Chapter 5).

Implementation of Recommendations Concerning Strategic Planning: Still no Major, but some Preliminary Changes are becoming Evident

3. There was a 23 reduction in the number of documents in the management areas assigned to ministers (69 documents in 2017, compared to 90 documents in 2016), work is ongoing. The optimisation of the planning documents would provide the conditions necessary for simplifying the development of strategic actions plans, and reducing the number of assessment criteria used therein (Subsection 1.1).
4. The implementation plan of the Government Programme, approved in 2017, had substituted partly redundant documents: the priority measures of the implementation plan of the Government Programme, and the priorities of the government. This had made activity planning and the monitoring of the implementation of strategic documents more simple. However, the

duty of setting government priorities is still specified in the Law on the Government of the Republic of Lithuania. We would like to note that this law should be clarified (Subsection 1.1).

5. There has been a slight decrease in the number of criteria for assessing the activities of ministries – compared to 2016, the number decreased by 3 percent in 2017 (1,758 to 1,710), although initiative displayed by the ministries is still lacking. Significant changes are as follows:
 - the number of assessment criteria had decreased by 15-25 percent at 3 ministries;
 - at 4 ministries, however, the process was reversed – the number of assessment criteria had increased by 11-40 percent.

This underwrites the importance of the valuation, provided during the audit conducted in 2016, which states that a high number of assessment criteria fails to comply with good practices that suggest conducting outcome assessments using a small set of well-formulated key criteria (Subsection 1.2)

6. There has been a slight improvement in the functional efficiency improvement planning – in 2017, efficiency improvement measures were scheduled at 10 ministries, as compared to 6 ministries in 2016 (Subsection 1.3). However:
 - 4 out of 11 ministries, which had been provided with recommendations regarding the improvement of the efficiency of functions by the Chancellery, had failed to consider them. Two ministries (the Ministry of Culture, and the Ministry of Education and Science) had failed to take note of the comments made by the Chancellery both in 2015 and 2016;
 - outcomes of the efficiency of the general functions of ministries both in 2015 and 2016 were lower than the efficiency of the institutions and establishments within their area of management in accordance with 10 out of 12 criteria applied to the assessment of the efficiency of the area of general functions.

Due to insufficiently responsible planning, the possibility of saving on the funds of the public budget by increasing the efficiency of general functions is still not being used to its full capacity.

7. The Chancellery still hasn't conducted work estimated to have a significant impact on the success of the restructuring of the strategic planning and budget system, with plans to conduct it by the end of the 1st quarter of 2018 (Subsection 1.4):
 - Linking legally-approved assignments with expected outcomes of the government will provide the conditions necessary for having clear and useful information, while the public will be able to see the value of using taxpayers' money to the state.
 - Set mandatory linkages between planning documents and strategic action plans, such that said plans would reflect the key aims specified in other planning documents
 - Review the principles for drawing up programmes which have no features characteristic of programmes, and are intended for financing various payments and (or) pay outs. Just like in 2016, in 2017 such programmes are implemented by the Ministry of Finance, and the Ministry of Social Security and Labour. The goals, tasks, measures, and criteria of such programmes are developed artificially, which increases administrative load to employees responsible for implementing planning, monitoring and reporting, without creating any additional value.
 - Set the goal of calculating management expense, and, if necessary, also a reporting procedure for factually incurred management expense. Currently, ministries are still planning such expense: 14 ministries had calculated management expense in their strategic actions plans for 2017-2019 – a practice continued in the preparation of strategic action plan projects for 2018-2020.

Implementation of Recommendations Regarding the Monitoring of and Reporting on the Outcomes of Activities: An Insufficiently Responsible Attitude of the Ministries, and the Insufficiently Principled Position of the Chancellery had led to a Lack of Changes, Resulting in the Repetition of Shortcomings Identified in 2016

8. Approximately 20 percent of the data (or 25 percent, according to the audit conducted in 2016) on the outcomes of the activities of ministries, held in the monitoring information system, are still unreliable and incomplete, which makes them unsuitable for the monitoring of and reporting on the outcomes of activities. Shortcomings were identified in all ministries, except the Ministry of National Defence, the Ministry of Foreign Affairs, and the Ministry of Economy (Chapter 2).
9. The quality of data held in the monitoring information system on the outcomes of the implementation of the government programme had deteriorated: in 2016, outcomes for 80 percent of criteria were not submitted (in 2015, it was only 12 percent). Such data held in the monitoring information system are unsuitable for the monitoring of and reporting on the implementation outcomes of the government programme (Chapter 2).
10. Government reports submitted to the Seimas are still incomplete and lack continuity: the report of 2016 lacks information on more than half of the outcomes of the government's activities (Chapter 3):
 - reporting on 33 percent of the outcomes of the government's activities is not allowed, because the data appears after the report has already been prepared;
 - the report lacks information on 60 percent of the outcomes which were not achieved.

Considering the above, the valuation submitted in 2016, which states that neither the public, nor members of the Seimas, responsible for making decisions, receive complete information on whether the goals set by the government had been achieved, remains relevant.

Implementation of Recommendations Regarding the Management of the Public Investment Programme: No Key Changes have been Observed

1. Although the Chancellery plans to review the processes related to the planning of public investment by the 1st quarter of 2018, with less than 6 months left until the deadline, no actual work has yet been performed (Subsection 4.1).
2. In implementing the recommendations submitted by the National Audit Office, the Ministry of Finance has prepared a draft clarification of the government decree. In accordance with said draft, until the Chancellery implements the planned changes, the planning of the public investment programme, and reporting on implemented investment projects would be simpler, and would also result in a reduction in the scope of documents to be drawn up. The draft clarification came into force on 26 September 2017 when the planning of the programme was almost completed, which makes relevant the assessments submitted during the audit carried out in 2016 (Subsection 4.3):
 - When preparing the public budget and investment programmes for 2018, part of the work was redundant.
 - Even though almost a half of the projects remain small in scale and low in value (up to 0.5 million EUR), funds are still being allocated to small-scale work, and for procuring measures necessary for implementing the functions of the public sector.

Changes during the audit: as the provisions of the amended decree come into force on 26 September 2017, the Ministry of Finance will include into the programme for 2018-2020 only those projects, which will allocate funds for the development and procurement of long-term

- material and non-material assets, or the increase of the value of said assets by more than 360,000 EUR, and more than 100,000 EUR for the procurement of the latest information and communications technologies. If the draft decree were to be issued later, employees of ministries and other establishments would not have to prepare low-value investment projects.
- The procedure for reporting on the investment projects implemented in 2016 still hasn't submitted any information on the outcomes of investment, or its public value and long-term impact.
3. Ministries which received the recommendation (the Ministry of Environment, the Ministry of Social Security and Labour, the Ministry of Justice, and the Ministry of Agriculture) had implemented it, and clarified the investment project selection criteria (Subsection 4.4).

Recommendations

To the Chancellery of the Government of Lithuania

In order to implement the restructuring of the strategic planning and budget formation system in a timely manner, specify additional measures of control for ensuring compliance with set terms (Conclusions 1 and 2).

A plan for the implementation of the recommendations is provided in the section titled, "Plan for the Implementation of Recommendations".