NATIONAL AUDIT OFFICE OF THE REPUBLIC OF LITHUANIA

REPORT
ON MANAGEMENT OF THE EUROPEAN UNION‘S FINANCIAL ASSISTANCE IN 2004–2007

16 April 2008 No. VA-60-7P-7
Vilnius

This report has been prepared
under assignments given by Remigijus Pužauskas, Deputy Director, Audit Department No. 6 of the National Audit Office
No. 60-7P and No. 60-7P-1 of 2 May 2007

Prepared by public auditors:
Natalija Bryžachina (team leader)
Arūnas Zabulionis
Laima Liegutė (until 28-09-2007)

This report is available in the website
of the National Audit Office
www.vkontrole.lt

Table of Content

Summary 3

Objectives, Scope and Process of the Report 6

Results 9

1. **EU Budget in 2004–2006** 9
   - 1.1. **EU Budget Revenue and Payments to the EU Budget by the Member States** 9
   - 1.2. **EU Budget Expenditure and Payments to the Member States** 11
   - 1.3. **Net Position of the EU Member States** 13
2. **Management of the EU Financial Assistance Allotted to Lithuania in the Programming Period 2004–2006** 15
   - 2.1. **EU Financial Assistance Management and Control Systems** 16
   - 2.2. **Planning of the EU Financial Assistance in the State Budget and Use of the Assistance in 2004–2007** 24
3. **Management of the EU Financial Assistance Allotted to Lithuania in the Programming Period 2007–2013** 53
   - 3.1. **EU Structural Assistance** 53
   - 3.2. **European Funds for Agriculture, Rural Development and Fisheries**55

Summarised Conclusions and Proposals 58

Annexes 61

Summary

The National Audit Office of the Republic of Lithuania prepared this report on the management of the EU financial assistance in 2004–2007 in order to increase awareness of the Lithuanian authorities and the public of the current situation in the area of management and utilisation of the EU assistance, to determine risks related to these processes and to contribute to the improvement thereof. The report evaluates the management and utilisation of the EU financial assistance (EU Structural Funds (SF) and Cohesion Fund (CF), the European Agricultural Guidance and Guarantee Fund Guarantee Section (EAGGF GS)), which was allotted to Lithuania in the 2004–2006 programming period, in 2004–2007. This report is of general nature and no special audits were conducted to prepare it.

Lithuania, just as other new Member States that have joined the EU recently, receives from the EU budget more than it pays to the EU budget. In 2006, Lithuania's contributions to the EU budget accounted for 0.2% (LTL 0.8 bn) of the total income of the EU budget, while EU payments to Lithuania accounted for 0.74% (LTL 2.7 bn) of the total payments to the EU Member States. The amount of payments received by Lithuania from the EU was 3-4 times larger than Lithuania's contributions to the EU. Lithuania's net position will remain positive: it is estimated that in 2008- 2010 EU's payments to Lithuania will be 4-5 times as large as the contributions.

The EU assistance received and used by Lithuania is not fully reflected in the state budget as not all the assistance earmarked for Lithuania is reallocated through the state budget (part of the funds is transferred directly to entities implementing or administering certain measures). There is no central provision of summarised information about the management and use of all the EU assistance received (including those funds which are allocated through channels other than the state budget).

The continuity of the EU payments' flow to Lithuania depends on the efficiency of the EU assistance management and control systems in place in Lithuania, such systems being aimed at ensuring appropriate management of the assistance and its utilisation in due time. The management and control systems established in the 2004-2006 programming period in Lithuania for the purposes of the SF, CF and EAGGF GS were substantially in compliance with the set requirements, however, certain weaknesses have been established and relevant recommendations for the elimination of these weaknesses have been presented. In terms of the *EU Structural Funds,* the main weaknesses were related to the lack of clarity in the project selection and evaluation procedures; insufficient capacities of implementing and intermediate authorities to identify errors and to ensure that the declarable to the European Commission expenditure submitted in the reports is eligible and correct; inappropriate conducting of sample checks on operations; and weaknesses in the management of irregularities. The main observations concerning the *Cohesion Fund* were related to various weaknesses in the management and control systems; in some cases – inappropriate use of funds; non-compliance with the provisions of the Law on Public Procurement; and weaknesses in the management of irregularities. In case of *EAGGF GS*, the main observations were related to unforeseen internal controls or internal controls requiring improvement; incompliance or adjustment of certain administration rules and procedures with the provisions of the Commission Regulations; inefficiency of checks of certain measures of the Rural Development Plan for 2004–2006; incompliance of the internal control system with certain accreditation criteria; and to ensuring reliability of data.

In order to use the EU assistance successfully and to maximise the benefits received, it is important to both duly apply the provisions of the EU regulations (to avoid sanctions and reduction in the assistance) and to ensure effective and efficient utilisation of the assistance. In 2004–2007, the National Audit Office completed ten performance audits related to the EU financial assistance. In

six of the ten audits, the management and use of the EU SF and CF assistance was assessed. In some cases weaknesses of the assistance‘s administration and insufficient effectiveness of project management were determined.

In the programming period 2004–2006, almost LTL 6 bn were allotted to Lithuania in the form of the EU structural assistance (LTL 3.09 bn EU SF (excluding EC initiatives) and LTL 2.85 bn CF (ISPA)) as well as over LTL 3 bn from EAGGF GS. In the new programming period 2007–2013, the EU structural assistance to Lithuania amounts to over LTL 23 bn, while the assistance to Lithuanian agriculture, rural development and fisheries to over LTL 12 bn.

As of 31 December 2007, LTL 2,709 m (65%) of the total amount of funds earmarked for the implementation of the measures under the Single Programming Document (SPD) for 2004–2006 were used, including LTL 1,908 m (62%) EU funds. By 31 December 2008, i. e. during one year, 38% of the EU funds allotted for the measures must be used. The accumulation of a large amount of unused funds at the end of the programming period creates a risk that part of such funds may remain not used in due time. This may also affect the timely use of the assistance allotted for the new programming period 2007–2013 as the authorities face the task of administering funds of two programming periods.

LTL 2,425.5 m (60.5%) of the funds approved by the Commission for the CF (ISPA) projects were used as of 31 December 2007, including LTL 1,610.3 m (56.5%) EU funds. As the share of unused EU funds accounted for approx. 43.5% and not all the contracts have already been signed (in particular, projects in the environmental sector), there is a risk that part of the funds will not be used by the set deadline.

As of 31 December 2007, LTL 1,766.8 m (83.6%) of the EU and co-financing funds earmarked for the measures under the Rural Development Plan for 2004–2006 and LTL 1,097.3 m (98.8%) of the EU funds earmarked for direct payments were disbursed. Although the overall degree of use of the funds earmarked for the measures under the Rural Development Plan for 2004–2006 is quite high, less than one-half of the allotted amount was paid under some rural development measures as of 31 December 2007.

The drawing up of plans for the conclusion of contracts and use of funds, initiated by the Ministry of Finance, is a good administration practice, however, without regulation of the monitoring of the drawing up, approval, adjustment and implementation of plans for the conclusion of contracts and use of funds under the measures of SPD for 2004–2006 and the payments to contractors under the CF (ISPA) projects, there remains a risk that such monitoring will be ineffective as a means of control.

The need for additional financing for the implementation of the CF (ISPA) projects remains one of the most urgent issues related to the use of the CF (ISPA) funds. As of 31 December 2007, the additional funds requirement of the CF (ISPA) projects amounted to LTL 1,132.2 m. One may expect that this additional funds requirement is going to increase given that the value of signed contracts in the environmental sector accounted for 61.8% and having regard to the market inflation processes. The increased value of the CF (ISPA) projects has to be financed from the national funds. If no sufficient funds are allotted certain components of the projects approved by the Commission (goods, services and works) might have to be abandoned. Therefore, there exists a risk that not all the set project objectives are attained.

In order to ensure efficient and timely use of the EU financial assistance allotted to Lithuania for the programming period 2004–2006, the institutional administrative capacities must be mobilised. The assistance use rates should be speeded up. The European Court of Auditors and the European Commission have stressed more than once that the Member States should pay more attention to the insufficient use of the EU structural assistance. Furthermore, it is important that the positive experience in the assistance management and use, gained in the first programming period, is applied to the implementation of programmes in the new period.

A recommendation has been made to the Government of the Republic of Lithuania to organise presentation, on a periodic basis, of summary information on the management and use of all the EU financial assistance to Lithuania (including those funds that are not distributed through the state budget) to the public and the stakeholders and to regulate the monitoring of the drawing up, approval, adjustment and implementation of plans for the conclusion of contracts and use of funds under the measures of SPD for 2004–2006 and the payments to contractors under the CF (ISPA) projects. Proposals concerning the organisation of the assessment of whether the values of the CF (ISPA) projects had been increased well-foundedly etc. have been made to the Ministry of Finance.

Objectives, Scope and Process of the Report

The main function of the National Audit Office of the Republic of Lithuania ("the NAO") as a supreme auditing institution ("SAI") is to exercise supervision over the legality and efficiency of management and use of public finances (including the assistance allotted by the European Union ("EU")) and other assets and over the execution of the state budget[1]. Promoting transparent and efficient management and use of the EU financial assistance and protecting financial interests of the EU is one of the strategic objectives of the NAO[2].

The NAO carries out financial (legality) audits and performance audits while implementing its functions. In addition, by resolution of the Seimas of the Republic of Lithuania ("the Seimas")[3] the NAO was charged with the responsibility for carrying out the mandatory audits of the EU financial assistance (Table 1).

Table 1. Scope of competence of NAO in the programming periods 2004–2006 and 2007–2013

2004–2006	2007–2013
The National Audit Office as a supreme audit institution performs **financial (legality) and performance audits.** *Basis: Law on the National Audit Office.*	The National Audit Office as a supreme audit institution performs **financial (legality) and performance audits.** *Basis: Law on the National Audit Office.*
The National Audit Office as an institution submitting the declaration at the winding-up of an assistance performs **winding-up audits** (EU SF (SPD, Community initiatives) and CF (ISPA) projects). *Basis: resolutions by the Seimas and EU Regulations.*	The National Audit Office as the audit authority performs **audits of the management and control systems and operations audits** of the action programmes under the convergence objective of economic, social and territorial cohesion. *Basis: resolutions by the Seimas and EU Regulations.*
The National Audit Office as the certifying authority performs **certification audits** (EAGGF GS and SAPARD expenditure). *Basis: resolutions by the Seimas and EU Regulations.*	

Note: the list of mandatory and performance audits related to the EU assistance, carried out by the NAO and discussed in this Report, is provided in Annex 2.

At the meeting of the Contact Committee of the heads of SAIs of the EU Member States[4] held in 2003 in Prague, guidelines on cooperation in the improvement of the EU funds' audit were adopted (Annex 3 contains a summary of activities of the SAIs in the EU-related areas). Having regard to this a special working group on the SAI reports on the management of the EU finances was set up. The main aim of the group was to encourage the SAIs of the Member States to prepare annual national reports on the management of the EU finances. At present, such reports are prepared by SAIs of ten Member States: Austria, Czech Republic, Denmark, Estonia, Italy, United Kingdom, Lithuania, the Netherlands, Slovenia and Hungary. SAIs of some other states (Slovak Republic,

[1] Republic of Lithuania Law on the National Audit Office, 30-05-1995 No. I-907.
[2] Strategic Action Plan of NAO for 2006–2008 approved by order of the State Controller of 11-07-2005 No. V-90.
[3] Resolution of the Seimas of the Republic of Lithuania of 01-07-2003 No. IX-1667 „Concerning assignment to the National Audit Office of the Republic of Lithuania to carry out audits of the EU structural assistance received" (edition of resolution of the Seimas of 11-10-2007 No. X-1295).
[4] The meetings are held on an annual basis, at which the heads of the SAIs of EU Member States and of the European Court of Auditors discuss relevant issues, exchange information and provide for further cooperation guidelines.

Germany) are considering drawing up of such reports[5] (Annex 3). Although there are differences in the scope and content of these reports, the aims of preparing them are similar – to present a general overview of the functioning of the management and control systems designed for the EU financial assistance allotted to the country and of the use of the assistance and to make the authorities and the public aware of the situation and progress in this area.

Objectives of the Report. The objectives of the report on the management of the EU financial assistance in 2004–2007 ("the Report") are as follows:

- increase awareness of the Lithuanian authorities and the public of the current situation in the area of the management and use of the EU financial assistance;
- identify the risks that may affect the management and use of the EU financial assistance in Lithuania;
- contribute to the improvement of the management and use of the EU financial assistance in Lithuania.

Subject and period of evaluation. The report covers the management and use of the EU financial assistance, which was allotted to Lithuania in the programming period 2004–2006[6], in 2004–2007. A concise overview of the programming period 2007–2013 is presented as well.

In the programming period 2004–2006, Lithuania was granted the EU financial assistance for the implementation of measures of the Common Agricultural Policy ("CAP"), cohesion and internal policies measures etc. (Annex 4). The following funds were selected for a more thorough examination[7]: the European Agricultural Guidance and Guarantee Fund Guarantee Section (EAGGF GS) – the financing source of CAP, and the EU Structural Funds (EU SF) and the Cohesion Fund (CF) – the financing source of the cohesion policy. The Report does not cover the EU SF financing earmarked for Community initiatives (EQUAL, INTERREG) and the financing from the state budget for the market regulation measures and complimentary national direct payments.

It should be noted that the EU SF assistance allotted to Lithuania for the programming period 2004 – 2006 and the EAGGF GS funding for the measures under the Rural Development Plan for 2004 – 2006 ("RDP") must be utilised by the end of 2008, while assistance from the CF (ISPA) – by the end of 2010.

The Report is a summarising one and no special audits were carried out for its purposes. To attain the objectives set for the Report, we have:

- made an overview of the EU budget (revenues and expenditure) for 2004–2006;
- presented a brief overview of the EU financial assistance management and control systems in place in Lithuania (in the programming periods 2004–2006 and 2007–2013);
- summarised the results of the mandatory audits of the EU financial assistance and performance audits conducted by the NAO in 2004–2007;

[5] Materials of the EU Member States SAI working group „SAI Reports on Management of the EU Finances", 2007.
[6] I. e. from the date of Lithuania's accession to the EU (1 May 2004) till the end of the general EU budget programming period (2000–2006 m.).
[7] The selection of these funds was determined by the rates of utilisation of the appropriations used for the special EAGGF GS, EU SF and CF programmes in 2005–2006 as a share of total used appropriations for the special EU programmes: 2005 – 84.7%, 2006 – 85.5% (source: components of the statements of execution of the state budget in 2004–2006 – reports on the EU and state budget appropriations for the financing of special programmes (Form 19).

- summarised the information and data related to the management and use of the EU financial assistance in the EU and Lithuania, received from certain institutions of the EU[8] and Lithuania[9];

- assessed the planning of the EU financial assistance (selected EU funds) in the Lithuanian state budget and the degree of use of the assistance.

The Report has been prepared using the experience and recommendations of SAIs of other EU Member States that prepare the EU finances' management reports. We have collaborated with the SAIs of the Netherlands and other Member States which participate in the SAI working group on the SAI reports on the management of the EU finances and which have experience in preparing the said reports. We have approached the staff of the European Court of Auditors and the European Commission for certain information.

All the amounts in the Report are disclosed in Litas[10]. Annex 1 to the Report contains a list of abbreviations used therein.

[8] The European Court of Auditors, European Commission and OLAF.
[9] Ministry of Finance, Ministry of Agriculture and Financial Crimes Investigation Service.
[10] 1 EUR = 3.4528 LTL.

Results

1. EU Budget in 2004–2006

The first section of the Report contains data on the payments to the EU budget and disbursements from the EU budget by/to the EU Member States (including Lithuania in 2004–2006) published by the European Court of Auditors; the net position of the Member States is described. The section also presents information on the actual and forecast contributions by Lithuania in 2007–2010 and payments to Lithuania in 2004–2010 published by the Ministry of Finance of the Republic of Lithuania.

1.1. EU Budget Revenue and Payments to the EU Budget by the Member States

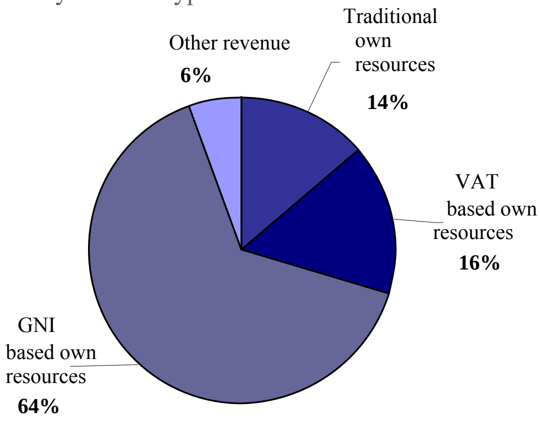
Approximately 1% of total gross national income (GNI) of the EU Member States is annually contributed to the EU budget (in 2006: approx. LTL 811 per EU resident)[11]. Own resources (traditional resources, value-added-tax-based and GNI-based resources) account for the largest share of the EU budget revenue (in 2006: 94%); other revenue makes up the remaining part (Figure 1).

Traditional own resources (2006: 14%) is revenue received from customs duties on agricultural products and other customs duties from trade with countries other than the Member States and the contributions and taxes set for the sugar market.

Value-added tax (VAT) based own resources (2006: 16%) are derived by applying the uniform tariff rate on the VAT taxation bases set according to the Community rules and agreed by all the Member States. Such harmonised VAT base may not exceed 50% of the Member States' GDP.

GNI-based own resources (2006: 64%) is contributions paid by the Member States on GDP. The rate is calculated based on the amount of all other revenue to be received by the EU budget. The share of these resources in the EU budget revenue tends to increase.

Fig. 1. Breakdown of the EU budget revenue in 2006 by revenue types



Source: ECA annual report for financial year 2006

Other revenue (2006: 6%) consists of the surplus of previous financial years and other EU revenue (crediting of Member States and private companies, operations of the European Investment Fund, coal and steel taxes, credits to entities other than EU Member States). The total amount of own resources required for the EU budget is equal to the expenditure less other revenue.

[11] Source: The European Union Budget at a glance. European Commission, 2007.

Special considerations given to the United Kingdom to reduce its contribution through a rebate to correct the disbalance ("the UK correction"), based on the Fontainebleau principle to the effect that any Member State whose budget burden exceeds the relative level of its welfare may benefit from the correction in due time also forms part of the own resource system. The burden of funding the UK correction is borne by other Member States. The UK correction exclusively applied to the VAT-based own resources and the GNI-based own resources in proportion to the size thereof.

In 2006 the revenue of the EU budget totalled LTL 374.4 bn. An analysis of the Member States' payments to the EU budget shows that the "old" Member States (EU-15) account for the largest part of payments. Contributions to the EU budget by the "new" Member States (EU-10) in 2006 accounted for only 5.2% (LTL 19.6 bn) and Lithuania's contribution – 0.2% (LTL 0.8 bn) of total EU budget revenue (Table 2).

Table 2. Revenue of the EU budget in 2004–2006 by Member States and revenue types, in LTL m and %

	2004			2005			2006		
	EU-25	**EU-10**	**Lithuania**	**EU-25**	**EU-10**	**Lithuania**	**EU-25**	**EU-10**	**Lithuania**
Traditional own resources	**42,494.0** *100%*	1,078.3 *2.5%*	49.7 *0,12%*	**48,557.1** *100%*	2,490.2 *5.1%*	117.7 *0.24%*	**51,889.7** *100%*	2, 550.6 *4.9%*	131.2 *0.25%*
VAT-based own resources	**48,035.7** *100%*	1,550.3 *3.2%*	52.8 *0,11%*	**55,307.0** *100%*	2,774.3 *5.0%*	102.9 *0.19%*	**59,409.6** *100%*	3,170.0 *5.3%*	101.2 *0.17%*
GNI-based own resources	**238,181.0** *100%*	7,314.1 *3.1%*	272.1 *0,11%*	**244,667.5** *100%*	11,915.3 *4.9%*	438.2 *0.18%*	**242,151.8** *100%*	12,300.6 *5.1%*	501.0 *0.21%*
Disbalance due to UK correction*	**-511.0**	1,014.1	37.6	**-450.9**	1,537.2	55.9	**-52.8**	1,548.2	73.9
Other revenue	**29,206.2**	-	-	**21,681.9**	-	-	**20,964.4**	-	-
Total:	**357,405.9** *100%*	10,956.8 *3.1%*	412.3 *0.12%*	**369,762.4** *100%*	18,695.5 *5.1%*	714.7 *0.19%*	**374,362.6** *100%*	19,569.4 *5.2%*	807.3 *0.22%*

* calculations for the purposes of the EU budget disbalance accounting

Source: ECA annual reports for financial years 2004–2006

The breakdown of Lithuania's contribution by types of the EU budget revenue is in line with the breakdown of other Member States' contributions: in 2006, GNI own resources accounted for the largest share of Lithuania's payments, i. e. LTL 501 m (62%), while traditional own resources amounted to LTL 131 m (16.3%) and VAT-based own resources to LTL 101 m (12.5%) of total payments to the EU budget by Lithuania in 2006 (Table 2).

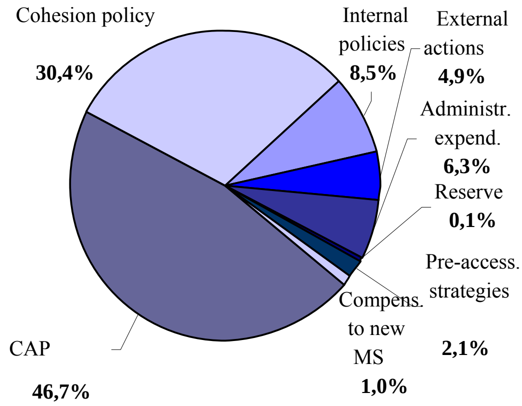
1.2. EU Budget Expenditure and Payments to the Member States

Expenditure of the EU budget consists of expenditure for the common agricultural policy, cohesion policy, internal policies and other areas and measures (Figure 2).

Common agricultural policy (CAP) includes regulation of agricultural markets and support to farmers. In 2006 this expenditure accounted for nearly half of the total EU budget expenditure (46.7%). CAP is financed from EAGGF GS.

Cohesion policy is designed for reducing disparities among countries and regions and for promoting economic and social cohesion. The share of expenditure for cohesion policy in total EU budget expenditure has grown since the accession of new Member States whose living standards lag far behind those of the old Member States. In 2006, expenditure for cohesion policy accounted for 30.4% of total EU budget expenditure. Sources of financing of the cohesion policy include the EU SF and the Cohesion Fund.

Fig. 2. Breakdown of EU budget expenditure in 2006 by areas



Source: ECA annual report for financial year 2006

Internal policies include the financing of all other Community Policies. The majority of expenditure in this area is related to research and development. Other measures cover different fields of internal policies such as subsidies to actions supporting citizenship or mobility in the education and training sector. 8.5% of the EU budget funds was allotted to internal policies in 2006.

External actions is the support and assistance to third countries and general funding of non-government organisations. 4.9% of the EU budget funds was allotted to internal policies in 2006.

Pre-accession strategy means assistance to candidate states in order to help them prepare for potential membership of the EU. Three different pre-accession instruments are applied: the EU assistance programme for restructuring of economies (PHARE), which is a general regional development programme; instrument for structural policies for pre-accession (ISPA) designed for environmental and transport sectors; and special accession programme for agriculture and rural development (SAPARD) related to agriculture and rural development. In 2006, all these programmes and measures accounted for 2.1% of the EU budget expenditure.

Administrative expenditure. This expenditure includes administrative costs incurred by the EU institutions (European Parliament, European Court of Auditors, European Commission etc.). In 2006, administrative expenditure accounted for 6.3% of the EU budget expenditure.

Reserve means the section of the budget intended for unforeseen expenditure; in 2006 it accounted for 0.1% of total EU budget expenditure.

The EU budget expenditure totalled LTL 367.9 bn in 2006. Payments to the new Member States accounted for 10.7% of the expenditure (LTL 39 bn), to Lithuania – 0.74% (LTL 2.7 bn) of total payments to the Member States. The majority of funds allotted to Lithuania in 2006 (over LTL 1 bn or 39% of total payments to Lithuania) were earmarked for the funding of CAP measures (Table 3).

Table 3. Payments to the Member States in 2004–2006*, LTL m and %

	2004			2005			2006		
	EU-25	EU-10	Lithuania	EU-25	EU-10	Lithuania	EU-25	EU-10	Lithuania
CAP	**150,471.0** *100%*	2,235.7 *1.5%*	170.9 *0.11%*	**167,342.7** *100%*	11,944.3 *7.1%*	917.1 *0.55%*	**171,945.3** *100%*	15,537.6 *9.0%*	1,066.2 *0.62%*
Cohesion policy	**118,079.9** *100%*	5,377.0 *4.6%*	325.9 *0.28%*	**113,124.8** *100%*	6,350.7 *5.6%*	546.2 *0.48%*	**111,868.3** *100%*	13,760.4 *12.3%*	662.2 *0.59%*
Internal policies	**25,050.8** *100%*	2,034.0 *8.1%*	400.2 *1.60%*	**27,526.1** *100%*	2,519.5 *9.2%*	500.3 *1.82%*	**31,122.5** *100%*	3,301.9 *10.6%*	789.0 *2.54%*
External actions	**15,902.9** *100%*	64.2 *0.4%*	0.0 *0.00%*	**17,309.2** *100%*	40.1 *0.2%*	0.7 *0.00%*	**17,906.9** *100%*	34.9 *0.2%*	0.0 *0.00%*
Pre-accession strategy	**10,541.1** *100%*	6,372.8 *60.5%*	647.1 *6.14%*	**10,305.2** *100%*	5,840.1 *56.7%*	279.0 *2.71%*	**7,861.0** *100%*	2,929.4 *37.3%*	190.6 *2.42%*
Administrative expenditure	**20,221.0**	-	-	**21,377.7**	-	-	**23,132.7**	-	-
Compensations	**4,866.7** *100%*	4,866.7 *100%*	132.9 *2.73%*	**4,505.9** *100%*	4,505.9 *100%*	24.2 *0.54%*	**3,706.6** *100%*	3,706.6 *100%*	24.9 *0.67%*
Reserves	**628.1**	-	-	**483.7**	-	-	**440.6**	-	-
Total	**345,761.5** *100%*	20,951.9 *5.6%*	1,677.0 *0.45%*	**361,975.3** *100%*	31,200.5 *8.6%*	2,267.5 *0.63%*	**367,983.9** *100%*	39,270.8 *10.7%*	2,732.9 *0.74%*

*The geographical breakdown is not by payments made to the Member States but by expenditure according to the data in the Commission’s computerised accounting system ABAC.

Source: ECA annual reports for financial years 2004–2006

In 2004–2006 there has been an increase in the EU budget expenditure for CAP, internal policies and external actions as well as administrative expenditure, while expenditures for cohesion policy, pre-accession strategies, compensations and reserves were reduced. As distinct from the general trends, payments to the new Member States including Lithuania and expenditure for cohesion policy have been increasing every year.

The EU financial assistance allotted from the EU budget to Lithuania is distributed not only through the state budget. Part of the assistance is transferred directly from the EU budget to entities implementing or administering certain measures (e. g. funds under the Community programmes Socrates, Leonardo da Vinci etc.; funding for the decommissioning of the Ignalina Nuclear Power Plant administered by the European Bank for Reconstruction and Development). The EU financial assistance to be distributed through the state budget is credited to the accounts managed by the Treasury Department of the Ministry of Finance of the Republic of Lithuania (“the Ministry of Finance”) set up separately for each fund.

A comparison of the data on the EU assistance paid to Lithuania in 2004–2006 as presented in the annual reports by the European Court of Auditors and the statement of execution of the Lithuanian state budget, it has been established that the figure disclosed in the statement of execution of the Lithuanian state budget is smaller (Table 4). The difference for 2006 is approx. 21%. One may assume that the majority of this difference is the EU financial assistance which is not distributed through the state budget[12].

Table 4. EU financial assistance paid to Lithuania in 2004–2006, LTL m

	State budget execution statements, LTL m	ECA annual reports, LTL m	Difference	
			LTL m	%
2004	1,389.8	1,677.0	287.2	17.1
2005	2,002.6	2,267.5	264.9	11.7
2006	2,162.3	2,732.9	570.6	20.9

Source: Statements of execution of the Lithuanian state budget for 2004-2006 and ECA annual reports for financial years 2004–2006

1.3. Net Position of the EU Member States

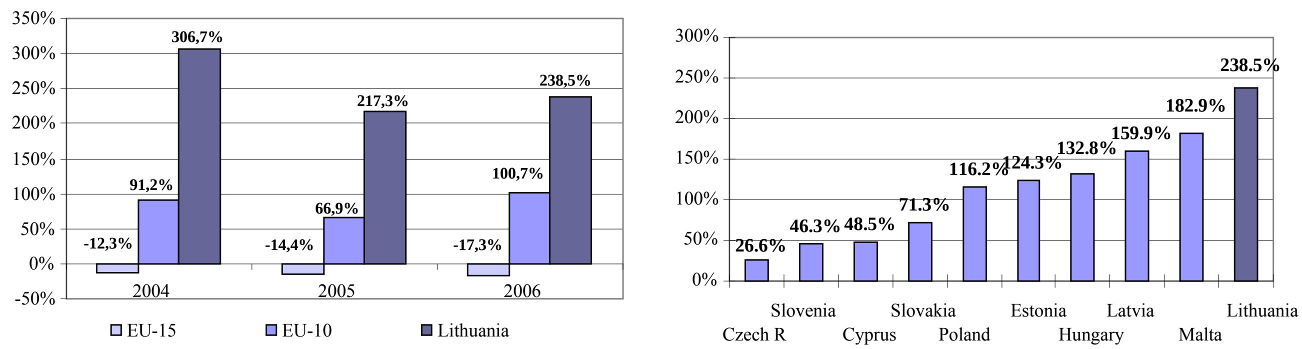
Net position is the difference between the Member States‘ contributions to the EU budget and the EU payments to the Member States.

The total amount paid by the old EU Member States (EU-15) to the EU budget in 2004–2006 exceeded the amount received from the EU budget (in 2004 – by LTL 29 bn, 2005 – by LTL 47 bn 2006 – by LTL 58 bn), while the assistance received by the new EU Member States (EU-10) in the same period nearly doubled their contributions to the EU budget (in 2004 – LTL 10 bn, 2005 – LTL 13 bn, 2006 – LTL 20 bn) (Figure 3).

Fig. 3. Net position of the EU Member States in 2004–2006, %

EU Member States net position in 2004–2006

New EU Member States net position in 2006



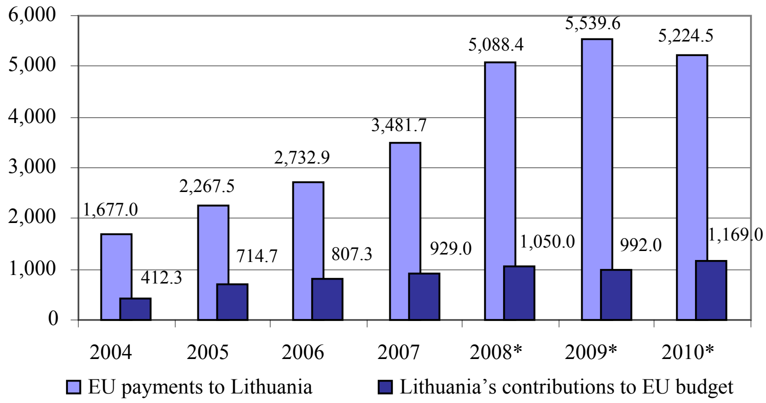
Source: ECA annual reports for financial years 2004–2006

According to the European Court of Auditors, in 2004 the amount of payments to Lithuania exceeded its contributions to the EU budget 4 times, in 2005 and 2006 – 3 times. This excess was the largest among all the new Member States (Fig. 3) in percentage terms. In absolute terms, the largest difference between payments to and from the EU budget among the new Member States was in Poland (LTL 9.8 bn).

[12] Differences in the data recording time may be another reason for the difference.

According to the plans and forecasts available to the Ministry of Finance, the gap between payment to Lithuania and Lithuania‘s contributions to the EU budget is going to increase in the period by 2009: in 2007, payments to Lithuania exceeded its contributions to the EU budget nearly 4 times and in 2008–2009 will exceed the contributions 5 times. It is anticipated that the difference will be reduced slightly in 2010, however, payments to Lithuania will be much more larger (4 times) than the country‘s contributions to the EU budget (Figure 4).

Fig. 4. EU payments to Lithuania and Lithuania’s contributions to the EU budget in 2004–2010, LTL m



* Plan/forecast

Source for 2004-2006: ECA annual reports for financial years 2004–2006

Source for 2007–2010: Ministry of Finance

Lithuania‘s contributions to the EU budget were increasing in 2004–2006 but accounted for a very small part of the EU budget revenue (2006: LTL 0.8 bn or 0.2%). The breakdown of Lithuania‘s contributions by types of EU budget revenue is in line with the trends of distribution of other EU Member States’ contributions: in 2006, GNI-based resources accounted for the largest share (LTL 0.5 bn or 62% of total contributions by Lithuania).

Payments to Lithuania in 2004–2006 were increasing as well and in 2006 amounted to LTL 2.7 bn. However, this accounted for less than 1% of total payments to the EU Member States (2006: 0.74%).

In 2006, payments to Lithuania exceeded the country‘s payments to the EU budget by 238.5% (the largest figure among the new Member States). In 2004–2010, both actual and forecast payments to Lithuania from the EU budget exceed its contributions 3–5 times, i. e. Lithuania‘s net position remains positive.

Not all the assistance received by Lithuania from the EU budget is distributed through the state budget. Part of the assistance is transferred directly to the entities implementing or administering relevant measures.

2. Management of the EU Financial Assistance Allotted to Lithuania in the Programming Period 2004–2006

Section 2 of the Report presents an overview of the management and control systems implemented in Lithuania in the programming period 2004–2006 for the purposes of the EU financial assistance (EU Structural Funds, Cohesion Fund and the European Agricultural Guidance and Guarantee Fund‘s Guarantee Section); an evaluation of the planning of the EU financial assistance in the Lithuanian state budget and the degree of assistance use; and results of checks and audits of the institutions responsible for the administration and control of the management and use of the EU financial assistance in Lithuania.

Information on the EU financial assistance allotted to Lithuania is collected by various institutions responsible for the administration of the assistance (ministries, project management and paying agencies etc.). The information is provided directly to stakeholders and through different information media (e. g. in websites of ministries, project management and paying agencies or designated websites (such as the website on EU structural assistance (www.esparama.lt) managed by the Ministry of Finance).

The statement on execution of the state budget discloses information on the EU assistance funds received in the relevant year (in a single line, without specifying the purpose), the use of allocations for special EU programmes, and (briefly) the reasons for the failure to use such allocations in individual years. However, this information pertains only to the use of the EU assistance distributed through the state budget in the relevant year.

There is no central systematisation of information on the EU financial assistance received by Lithuania (including those funds that are not distributed through the state budget). Therefore, one cannot form a general picture of the management and use of all the EU assistance to Lithuania from the beginning of the programming period.

Observation

In our opinion, the public at large and stakeholders should be furnished, on a periodic basis, with the information on the management and use of all the EU financial assistance allotted to Lithuania (including funds distributed through channels other than the state budget).

2.1. EU Financial Assistance Management and Control Systems

2.1.1. EU Structural Funds

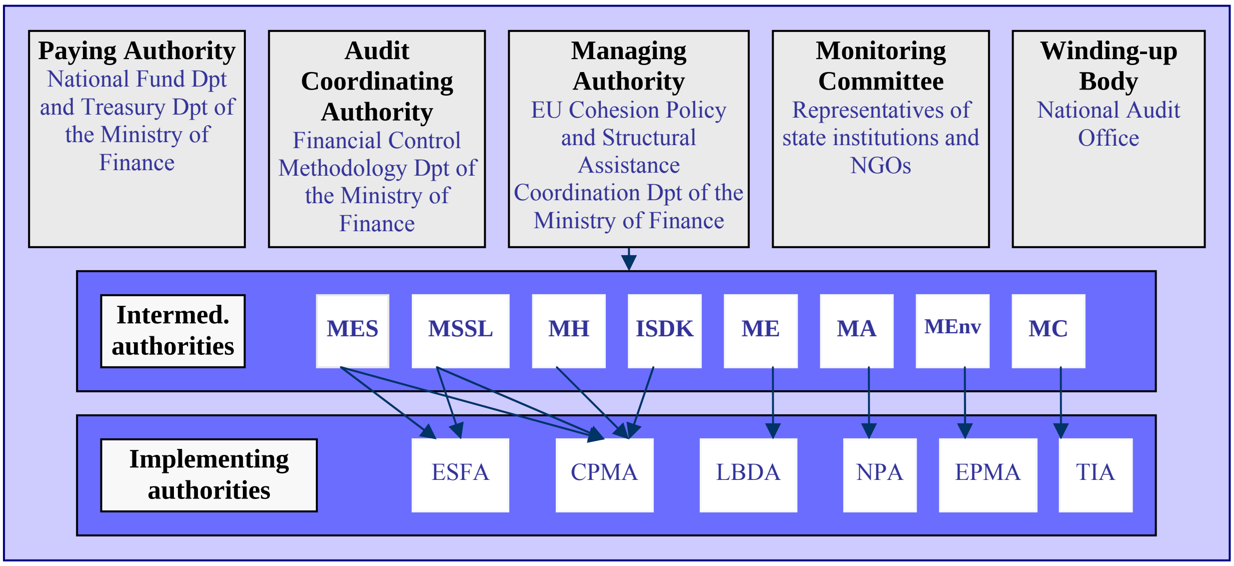
Objectives of the EU SF

EU fund		Objective
European Regional Development Fund	⇒	financial assistance to regions related to investments in production and infrastructure, investments contributing to the revival of industrial and agricultural regions in crisis, investments in the new job creation, support to small and medium-sized business and technological development
European Social Fund	⇒	support for projects aimed at resolution of social (in particular, employment problems)
European Agricultural Guidance and Guarantee Fund Guidance Section	⇒	considered to be part of cohesion policy (and not CAP) as supports the introduction of new farming methods and development of alternative economic activities in rural areas
Financial Instrument for Fisheries Guidance	⇒	supports the introduction of new methods and re-orientation of economic activities in fisheries areas

The EU regulations establish that each EU SF can finance certain measures aimed at the attainment of specific objectives. Lithuania receives assistance under the objective of promoting development and adaptation to economic changes in the underdeveloped regions.

EU structural funds management and control system. The European Commission is responsible for the execution of the EU budget but the majority of the budget (around 80%) is managed jointly by the Commission and the Member States; SF are the funds whose management is shared with the Member States. Council Regulation No. 1260/1999 and Commission Regulation No. 438/2001 lay down the requirements for the EU SF management and control system to be implemented by a Member State. The administration of the EU SF in Lithuania in the programming period 2004–2006 is schematically depicted in Figure 5:

Fig. 5. EU SF administration scheme for programming period 2004–2006



Source: Lithuanian legal acts

The SF management structure consists of three main tiers: the *managing authority* responsible for the reliable and efficient planning of the EU SF and co-financing and the implementation and supervision of the SPD according to the EU regulations (programme-level responsibility); *intermediate authorities* that exercise supervision over the implementation of the assigned SPD measures, adopt final decisions on the allocation of funding to projects and keep accounting for eligible expenditure (measure-level responsibility); and *implementing authorities* responsible for direct administration of assistance: they public invitations to submit project proposals, provide information, evaluate projects and monitor implementation thereof and prepare reports (project-level responsibility). The EU SF management system also involves a *paying authority* responsible for the accounting for all the EU SF and co-financing, and an *audit coordinating authority* responsible for the coordination of sample checks on operations performed by internal audit units of intermediate authorities. *Monitoring committee* is the main institution for the supervision over SPD implementation (the committee is formed from representatives of state authorities and NGO's following the partnership principle).

The intermediate authorities (internal audit units) conduct sample checks on operations that include checks of the management and control systems and of 5% of eligible expenditure. The implementing authorities carry on-the-spot checks (the managing authority and the paying authority are also entitled to carry out such checks).

According to the EU regulations, on completion of provision of the EU SF assistance, a declaration at the winding-up of an assistance must be prepared. The *National Audit Office was appointed as the authority responsible for the submission of such declaration* (the mandatory EU SF audits are carried out for this purpose).

Results of the EU SF checks and audits

▸ Checks of management and control systems of internal audit units

The purpose of the management and control system checks is to determine whether the SF management and control systems in place at the institutions responsible for the administration of the EU SF function efficiently and the controls involved in such systems effectively help to reduce the probability of errors and irregularities by timely identifying and correcting them. It has been established by the checks of the SF management and control systems conducted by the internal audit units in 2004–2006 that *all the responsible authorities performed the functions assigned to them, however, irregularities were found every year*. Table 5 shows the numbers of the management and control system checks completed by the internal audit units in 2004–2006, the main weaknesses identified, and the number of recommendations with implementation status.

Table 5. Checks of the management and control systems of EU SF (SPD) carried out by internal audit units in 2004–2006

Year	Number of checks	Number of recommendations	Implementation of recommendations as of 01-09-2007
2004	6	34	All implemented
2005	16	879	Implemented in full or in part
2006	9	90	59 implemented (the term has not expired for others)

Main weaknesses established: not all the institutions have duly prepared or updated their procedural manuals; job descriptions not always duly prepared; incompliance with the deadlines set in legal acts and procedural manuals by the institutions

Source: Ministry of Finance

▸ Mandatory audits carried out by the NAO

The results of the mandatory audits carried out by the NAO in 2005–2007 have shown that *the EU SF assistance management and control system in place is substantially compliant with the set requirements, however, various weaknesses have been established throughout the period* (see the audit results below, also items 2.2.2. and 2.2.6).

The audit **"Evaluation of the Management and Control System of the EU Structural Funds assistance established in the Republic of Lithuania"** (public audit report dated 20-05-2005 No. 1070-7-70) has established that:

- there was no sufficient number of trained employees for the performance of management and control functions;
- there was no sufficient number of internal auditors with sufficient competences for sample checks on operations.

Out of 53 recommendations made by the auditors, all were implemented as of 31 December 2007.

▸ Assessment of the Member States' supervisory and control systems by the European Court of Auditors in 2006 (cohesion policy)

The European Court of Auditors has established that, *in the area of cohesion policy, the supervisory and control systems are often unsatisfactory both on the Commission and Member State level.* The main weakness lies in the insufficiency of checking by the managing authorities of whether the funds whose reimbursement is requested have actually been incurred and whether appropriate supporting documents have been presented (Figure 6).

Fig. 6. Special assessment of legality and regularity of underlying transactions under the cohesion policy in 2006 by ECA

Operation of supervisory & control systems	⇨	Satisfactory	**Errors**	⇨	Less than 2% (below materiality level)
		Partially satisfactory			2–5%
		Unsatisfactory			**Greater than 5%**
Explanation: this figure presents a summarised assessment of supervisory and control systems and main results of ECA's substantive testing					

Source: ECA annual report for financial year 2006

Lithuania was not covered by the last annual audit of the cohesion policy conducted by the European Court of Auditors. However, the Lithuanian institutions administering the EU SF assistance should take this general EU trend into account and seek to minimise the risk of inefficiency or limited efficiency of the control system for the EU structural assistance (EU SF and CF).

The results of the management and control system checks by the internal audit units and the mandatory audits by the NAO have shown that the EU structural assistance management and control system in place in Lithuania is substantially compliant with the set requirements, however, certain weaknesses have been established (see also items 2.2.2. 2.2.6) and relevant recommendations have been made.

2.1.2. Cohesion Fund

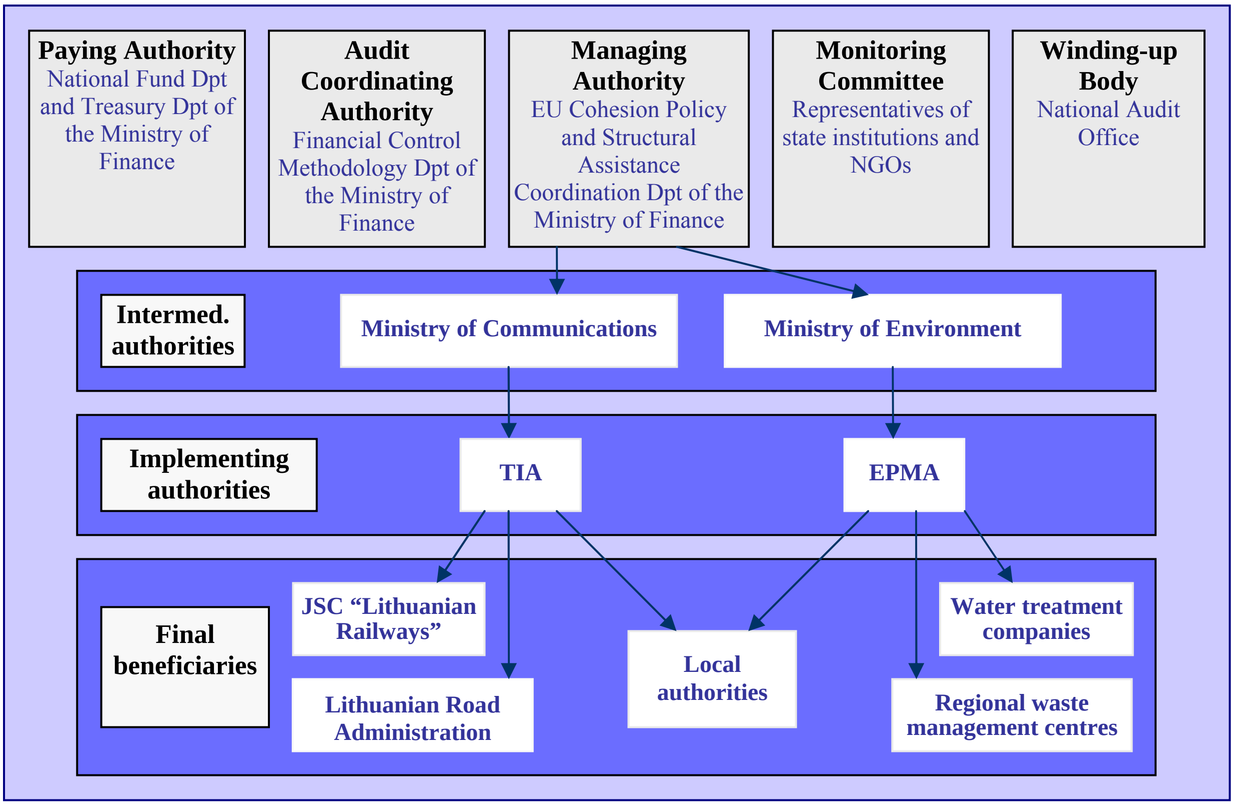
Objective of the Cohesion Fund

EU fund		Objective
Cohesion Fund	⇒	provides financial assistance to strengthen economic and social cohesion of the Community (support for projects that contribute to the attainment of the set objectives in the environmental and trans-European transport infrastructure network areas)

The Cohesion Fund finances projects in the area of transport and infrastructure development, the value of which is at least EUR 10 m. Assistance is allotted to the projects that have been agreed with the European Commission in advance and are in line with Lithuania's long-term objectives and the EU policy guidelines in the area of transport development and environmental protection. The European Commission adopts decisions on the financing of projects from CF. Lithuania started received the CF assistance in 2004 upon accession to the EU. Before the accession, transport and environmental projects had been financed by ISPA. The funding allotted to ISPA projects that are underway is considered to be CF funding from 1 May 2004.

Cohesion Fund's management and control system. The CF is managed by the Commission, just as the EU SF, jointly with the Member States. Council Regulation No. 1164/1994 lays down the requirements for a management and control system to be established by a Member State. The CF administration scheme for 2004–2006 is shown in Figure 7.

Fig. 7. Cohesion Fund's administration scheme for programming period 2004–2006



Source: Lithuanian legal acts

The CF management and control system in place in the Republic of Lithuania resembles that of the SF system in substance, with the only difference – the number of institutions participating in the system: two *intermediate authorities* and two *implementing authorities* for the environmental and transport sectors.

As distinct from the EU SF, sample checks of the CF assistance carried out by internal audit units of the intermediate authorities cover the checks of the management and control systems and 15% (not 5%) of the eligible expenditure.

According to the EU regulations, on completion of provision of the CF assistance, a declaration at the winding-up of a project must be prepared. Just as in case of the SF, the National Audit Office was appointed as *the authority responsible for the submission of such declaration* (the mandatory EU CF audits are carried out for this purpose).

Results of checks and audits of the Cohesion Fund's assistance

▸ Checks of management and control systems by internal audit units

It has been established by the checks of the CF management and control systems conducted by the internal audit units in 2004–2006 that *the Cohesion Fund's management and control systems are substantially functioning, however, improvements are required*. Table 6 shows the numbers of the management and control system checks completed by the internal audit units in 2004–2006, the main weaknesses identified, and the number of recommendations together with the implementation status.

Table 6. Checks of Cohesion Fund's management and control systems carried out by internal audit services in 2004–2006

Year	Number of checks	Number of recommendations	Implementation of recommendations as of 01-09- 2007
2004	2	15	All implemented
2005	6	27	All implemented in full or in part
2006	3	23	All implemented in full or in part

Main weaknesses established: insufficiently detailed descriptions of procedures in procedural manuals, delay in updating of procedural manuals, some provisions of procedural manuals conflicting with the provisions of legal acts, in job descriptions – inappropriate specification or lack of specification of functions of employees involved in the CF assistance administration; in some cases, inappropriate conduct of administrative checks related to the system's evaluation, on-the-spot checks and publicity and public awareness procedures.

Source: Ministry of Finance

▸ Mandatory audits carried out by the NAO

The evaluation of the completed CF projects carried out by the NAO in 2004–2007 has not resulted in *significant observations concerning the management and control systems, however, there are observations of medium and low significance:* insufficient audit trail related to the disclosure of project expenditure, shortage of workers in the system, and insufficient qualifications of workers (see items 2.2.3 and 2.2.6 and Annex 5).

The results of the management and control system checks by the internal audit units and the mandatory audits by the NAO have shown that the Cohesion Fund's management and control system in place in Lithuania is substantially functioning, however, certain weaknesses have been established (see also items 2.2.3 and 2.2.6) and relevant recommendations have been made.

2.1.3. European Agricultural Guidance and Guarantee Fund, Guarantee Section

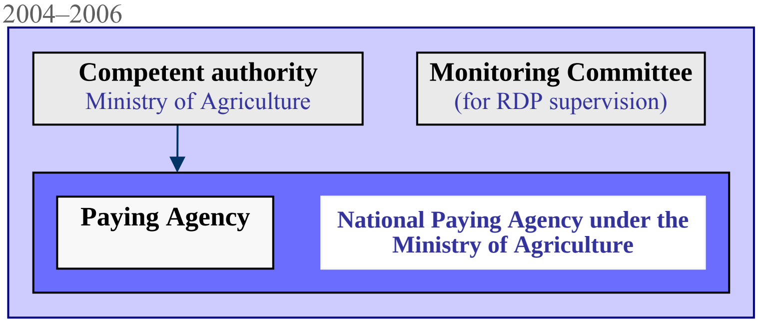
Objectives of the Guarantee Section of the European Agricultural Guidance and Guarantee Fund

EU fund		Objective
European Agricultural Guidance and Guarantee Fund Guarantee Section	➡	funding for interventions aimed at stabilising agricultural market, compensation payments for export to third countries, rural development measures etc.

The following measures were financed from EAGGF GS in Lithuania in the programming period 2004–2006: direct support, production quotas (flax fibre, starch and dry fodder), intervention measures, trade mechanisms, RDP measures (*Early retirement of farmers from the commercial agricultural production; Less favoured areas and areas with environmental restrictions; Support for semi-subsistence farms; Compliance with standards; Agro-environment; Afforestation of agricultural land; Technical assistance; Complimentary national direct payments and* SAPARD surplus).

Management and control system of EAGGF GS. As it has already been mentioned, the European Commission assumes full responsibility for the execution of the EU budget, however, almost all the expenditure for agriculture is implemented through management sharing with the Member States. Council Regulation No. 1258/1999 and Commission Regulation No. 1663/95 related to the implementation of EAGGF GS provide for the establishment of a management and control system by the Member States. A schematic representation of the EAGGF GS administration scheme in Lithuania for the programming period 2004–2006 is shown in Figure 8.

Fig. 8. EAGGF GS administration scheme in the programming period 2004–2006



Source: Lithuanian legal acts

The functions of the *competent authority*, i. e. the setting of accreditation criteria and the granting, supervising and, where necessary, revoking the accreditation of the paying agency, are performed by the Ministry of Agriculture of the Republic of Lithuania (MA). The National Paying Agency under MA ("the National Paying Agency") has been appointed as the *paying agency*. It is responsible for the implementation of the CAP measures and its key functions are as follows: authorising payments, making payments and accounting for payments. In order to perform these functions, the National Paying Agency must meet the set accreditation criteria. Implementation of certain measures (projects or actions) may be delegated to other responsible organisations ("delegated functions"). The *Monitoring Committee* has been set up for the monitoring of RDP; it is responsible for the evaluation of efficiency and quality of RDP implementation.

It should be noted that the paying authority and the implementing authority have not been separated for the purposes of EAGGF GS, in contrast to the EU SF and the Cohesion Fund.

The afore-mentioned regulations establish that the EAGGF GS expenditure reports must be certified, on an annual basis, by the *certifying authority*, the functions of which were performed by the NAO in the programming period 2004–2006. The European Commission decides on the clearance of the annual expenditure accounts on the basis of the results of the certification audit of the EAGGF GS expenditure accounts.

The MA and the National Paying Agency are responsible for exercising control over the measures planned. The control is implemented by conducting administrative checks and on-the-spot checks.

Results of audits of the Guarantee Section of the European Agricultural Guidance and Guarantee Fund

- **Mandatory audits carried out by the NAO**

Certification audits conducted by the NAO in 2004–2006, which comprised the assessment of the internal control system, have established that *in 2004 the functioning of internal control procedures was satisfactory and in 2005 and 2006 – quite well, except for certain weaknesses* (see item 2.2.4). It should be noted that significant[13] audit observations in 2005 were related to the administration of the RDP measures and single area payments scheme, while all the significant audit observations in 2006 – to the administration of the RDP measures.

- **Assessment of the Member States' supervisory and control systems by the European Court of Auditors in 2006 (common agricultural policy)**

The European Court of Auditors has established that *the monitoring and control systems in the CAP area were satisfactory in terms of the integrated administration and control system (IACS), which covered the majority of CAP expenditure, however, were unsatisfactory in terms of expenditure not covered by IACS* (Figure 9).

Fig. 9. Special assessment of legality and regularity of underlying transactions under CAP in 2006 by ECA

IACS				
Operation of supervisory & control systems	**Satisfactory**	**Errors**	**Less than 2% (below materiality level)**
	Partially satisfactory		2 –5%
	Unsatisfactory		Greater then 5%
Non-IACS			
Operation of supervisory & control systems	Satisfactory	**Errors**	Less than 2% (below materiality level)
	Partially satisfactory		2-5%
	Unsatisfactory		**Greater then 5%**
Explanation: this figure presents a summarised assessment of supervisory and control systems and main results of ECA's substantive testing			

Source: ECA annual report for financial year 2006

[13] Observations presented in the certification audit reports have been classified according to significance, which complies with the Commission guidance on the provisions of Commission Regulation No. 1663/95. The auditors have identified the following observation categories: significant observations – matters requiring immediate attention by top management of the National Paying Authority; observations of moderate significance – important matters related to the NAO internal control system requiring immediate attention of managers of relevant level; observations of low significance – matters to be resolved in order to ensure full compliance of the internal control system with the accreditation criteria as set out in Annex to Commission Regulation No. 1663/95.

The mandatory EAGGF GS audits carried out by the NAO have established that internal control procedures were functioning satisfactorily in 2004 and quite well in 2005–2006, except for certain weaknesses (see item 2.2.4), for the elimination of which relevant recommendations were made. Most significant audit observations were related to the administration of RDP measures, therefore, this area must receive more attention and must be improved.

The inter-institutional agreement on budgetary discipline and sound financial management by the European Parliament, the Council and the Commission (2006/C 139/01) is aimed at ensuring budgetary discipline, improving the annual budget-setting procedure and institutional cooperation on budgetary issues, and ensuring sound financial management. The institutions agree that it is important to strengthen internal control without creating additional administrative burden, and this requires simplification of current legislation. In this context, *sound financial management is considered to be a priority* in terms of the funds managed according to the management sharing principle *in order to obtain a positive Statement of Assurance (DAS) of the European Court of Auditors.* Therefore, the Member States undertake to prepare an annual national summary of audits and declarations. The European Commission has set a requirement[14] that such a summary is to be submitted by a relevant state authority or institution appointed by the Member State in the area of relevant expenditure according to the rules applicable to *specific sectors*. In the agricultural sector, the audit-related summary includes the certificates set by the certification authorities, while in case of structural and similar measures - audit opinions presented by the audit authorities. The declaration-related summary includes the statements of assurance provided by the paying agencies in the agricultural sector and the certifications given by the certifying authorities in the area of structural and similar measures. The deadline for the submission of the first annual audit and declaration summary prepared on the relevant national level by the Member States was 15 February 2008.

[14] Source: Commission Regulation of 23-04-2007 No. 478/2007 amending Regulation No. 2342/2002 laying down detailed rules for the implementation of Council Regulation No.1605/2002 on the Financial Regulation applicable to the general budget of the European Communities.

2.2. Planning of the EU Financial Assistance in the State Budget and Use of the Assistance in 2004–2007

2.2.1. Planning of Allocations for the Special EU Programmes in the State Budget

The planning of the EU financial assistance which is distributed through the state budget takes place in the special EU programmes managed by the appropriations administrators.

The rates of fulfilment of the appropriations plan for the EU programmes funded by the EU SF: 2005 – 33.9%, 2006 – 41.1%, 2007 – 54.8%. The rates of fulfilment of the appropriations plan for the EU programmes funded by the EU CF: 2005 – 44.6%, 2006 – 46.1%, 2007 – 59.2%. There was a more detailed planning of the appropriations for the special EU programme funded by EAGGF GS: the rate of fulfilment of appropriations plan for 2005 – 85.2%, 2006 – 86.5%, 2007 – 72.9% (Table 7).

Table 7. Execution of the plan of appropriations for the special EU programmes funded by the EU in 2004–2007, LTL m and %

Year	Indicators	SF*	CF (ISPA)	EAGGF GS
2004	Plan, LTL m	343.6	275.5	277.5
	Expenditure, LTL m	45.1	126.6	39.3
	Execution %	13.1	46.0	14.2
2005	Plan, LTL m	854.6	637.9	1,059.4
	Expenditure, LTL m	289.7	284.3	903.0
	Execution %	33.9	44.6	85.2
2006	Plan, LTL m	1,670.0	917.8	1,402.2
	Expenditure, LTL m	685.6	423.3	1,213.1
	Execution %	41.1	46.1	86.5
2007	Plan, LTL m	1,790.3	978.9	488.4
	Expenditure, LTL m	981.3	579.5	355.9
	Execution %	54.8	59.2	72.9

* Excluding Community initiatives (EQUAL, INTERREG).

Note: plan means the plan with the permissible adjustments over the amount approved by the Seimas.

Source: Statements of execution of the Lithuanian state budget in 2004–2007

Observation

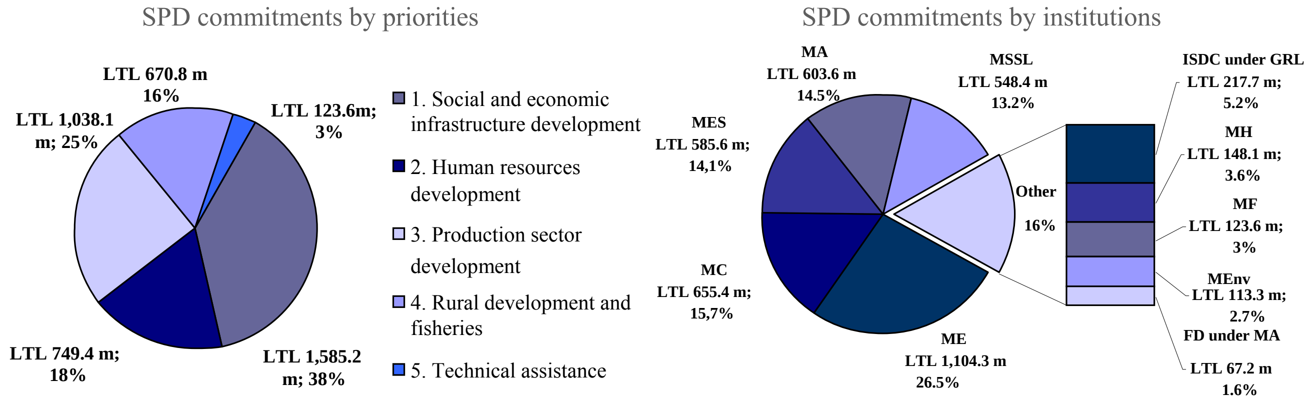
The planning of appropriations for the special EU programmes funded by the EU SF and CF (ISPA) in the state budget for 2004–2007 was not accurate enough.

The NAO having completed the audit on the Programme Budget System in 2006 has noted that the separation of the special EU assistance and co-financing programmes into separate programmes managed by the appropriations administrators is not in line with the programme principle as some of these programmes have the same aims as certain general programmes of the appropriations administrators and are identified substantially according to the financing source (EU assistance and co-financing funds programmes) or financing period (programmes of the programming periods 2004–2006 and 2007–2013). This comment made by the NAO was taken into consideration in part; in the 2008 budget programmes, the measures funded by the EU assistance and co-financing funds in the new programming period 2007–2013 were included in the general programmes managed by the administrators.

2.2.2. EU Structural Funds

Scope of assistance from the EU SF. In the programming period 2004–2006, the EU SF assistance to Lithuania was allotted to Lithuania under the Single Programming Document for Lithuania for 2004–2006 (SPD) approved by the Government of the Republic of Lithuania and the European Commission. Five priorities have been set in the SPD: development of socio-economic infrastructure, human resources development, production sector development, rural development and fisheries, and technical assistance. To implement these priorities, **approx. LTL 4.17 bn** (were allotted for the programming period 2004–2006 (LTL 3.09 bn – EU funds and LTL 1.07 bn – national funding[15]). The allocation of the EU SF assistance by SPD priorities and institutions is shown in Figure 10.

Fig. 10. SPD commitments by SPD priorities and institutions in 2004–2006, LTL m and %



Source: SPD for Lithuania for 2004–2006

The largest share of the SPD funding (38%) was allotted to Priority 1 – development of socio-economic infrastructure. The Ministry of Economy of the Republic of Lithuania ("Ministry of Economy") which performs the functions of the intermediate authority is responsible for the administration of the largest share of assistance (26.5%).

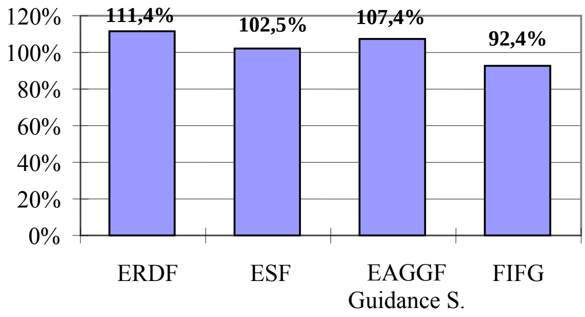
Due to increase in prices for energy, material and human resources, a need for **additional funds for SPD measures** arose in 2007–2008, which is estimated at LTL **223.6 m** (2007 – LTL 83.2 m, 2008 – LTL 140.4 m)[16]. By its resolution[17] the Government allotted additional funds for 2007 from the Special Programme for the Implementation of the EU Programmes managed by the Ministry of Finance, by transferring the funds to the Special EU Assistance and Co-financing Programmes managed by the intermediate authorities. The intermediate authorities had to provide the required additional funding for 2008 in the state budget of 2008 as their appropriations requirement. In the opinion of the Ministry of Finance, the risk that the need for additional funding will arise is low.

[15] In case of EU SF, part of the funding must be ensured by the Member State.
[16] Letter by the Ministry of Finance to the National Audit Office dated 20-02-2008 No. (4.54-06)-6K-0802007 „Concerning submission of information". The need for additional funding of SPD measures is presented based on information available to the intermediate authorities as of July 2007.
[17] Resolution of the Government of the Republic of Lithuania No. 710 of 11-07-2007 „Concerning amendments to resolution of the Government No. 91 of 29-01-2007 „Concerning allocation of the approved appropriations from the Lithuanian state budget for 2007 by programmes".

Utilisation of the EU SF assistance. During the period from the start of implementation of SPD till **31 December 2007, 3,536 agreements with beneficiaries were concluded, the total value of the agreements being LTL 4,534 m (EU funds: LTL 3,168 m)[18].** This accounts for 108.8 % of total SPD commitments.

An analysis of assistance agreements by individual EU SF shows that the value of agreements on measures funded by FIFG is lower (92.4%) than the SPD commitments for this instrument (Figure 11).

Fig. 11. Value of signed contracts as a share of total SPD commitments by EU SF as of 31 December 2007, %



Source: Ministry of Finance

Observation

As of 31 December 2007, the process of signing of agreements under certain SPD fisheries measures managed by the Fisheries Department under the Ministry of Agriculture ("Fisheries Department")[19] and financed from FIFG has not been completed as yet.

The Government of the Republic of Lithuania has charged[20] the Department of Fisheries with the responsibility for taking the necessary actions to timely sign the planned agreements and to timely utilise the EU funding under the SPD fisheries measures.

During the period from the start of implementation of SPD till 31 December 2007, 90 agreements (LTL 58.7 m of SPD funds) were terminated (LTL 41.9 m of the EU funds) [21]. The main reasons for termination: violations of the assistance agreements established; bankruptcy of undertakings; termination on the initiative of project promoter.

In order not to lose EU funding the Government of the Republic of Lithuania adopted resolutions[22] enabling the institutions to enter into assistance agreements under which obligations are assumed in excess of the amounts provided for in SPD so that funding is not lost due to venture projects and to save funds during implementation of projects. Such amount for SPD measures in excess of the SPD commitments amounted to LTL 366.7 m as of 31 December 2007.

[18] Source: Letter by the Ministry of Finance to the Government dated 31-01-2008 No. ((4.72-02)-6K-0801250. „Concerning submission of information".

[19] Measures 4.8 „Activities related to the fishing fleet", 4.10 „Other fisheries-related activities".

[20] Minutes of the meeting of the Government of the Republic of Lithuania No. 9 of 06-02-2008.

[21] Letter by the Ministry of Finance to the National Audit Office dated 20-02-2008 No. (4.54-06)-6K-0802007 „Concerning submission of information".

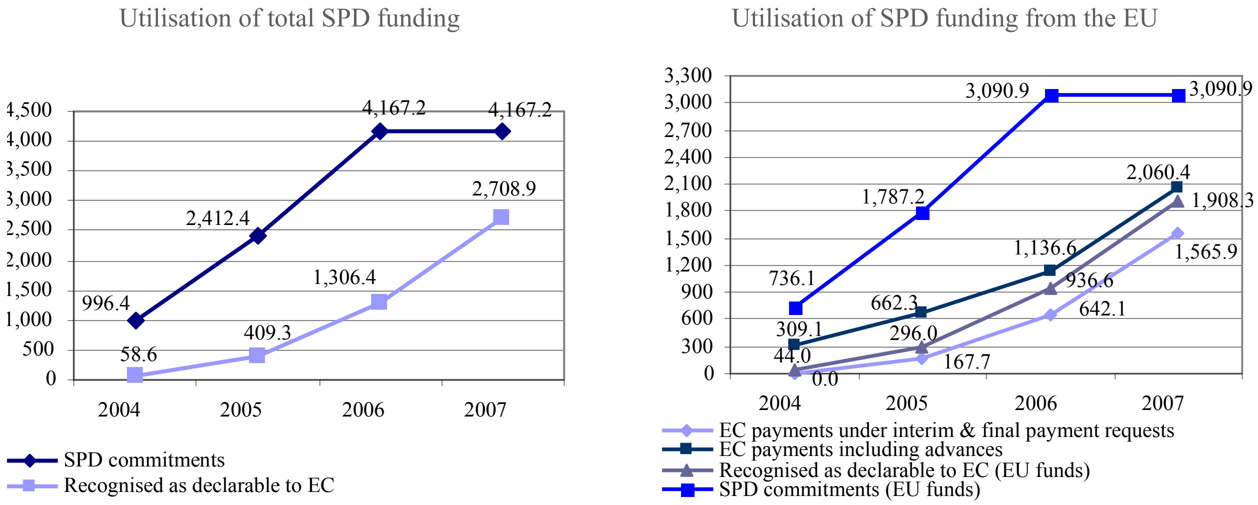
[22] Resolution of the Government of the Republic of Lithuania No 390 of 02-05-2006 „Concerning of approval of maximum amounts in respect of which the appropriations administrators can assume commitments in 2006 while concluding contracts for the implementation of projects funded by the EU SF and co-financing funds under measures of the SPD for Lithuania for 2004–2006"; resolution No. 180 of 12-02-2007 „Concerning of approval of maximum amounts in respect of which the appropriations administrators can assume commitments in 2007 while concluding contracts for the implementation of projects funded by the EU SF and co-financing funds under measures of the SPD for Lithuania for 2004–2006".

As of **31 December 2007, LTL 2,709 m of the funds allotted for implementation of the SPD measures were utilised**[23] (including EU funding LTL 1,908 m)[24] (Figure 12). This accounted for **65% of total funding allotted to SPD** (62% of EU funds).

Observation

The Lithuanian public is being informed about the application of the N+2 rule and the amount of expenditure declarable to the European Commission, which reflects the value of completed works to be reimbursed by the Commission. In our opinion, the public should also be informed about the amounts paid by the Commission.

Fig. 12. Utilisation of funds allotted for SPD implementation in 2004–2007 (increasing order) as of 31 December 2007, LTL m



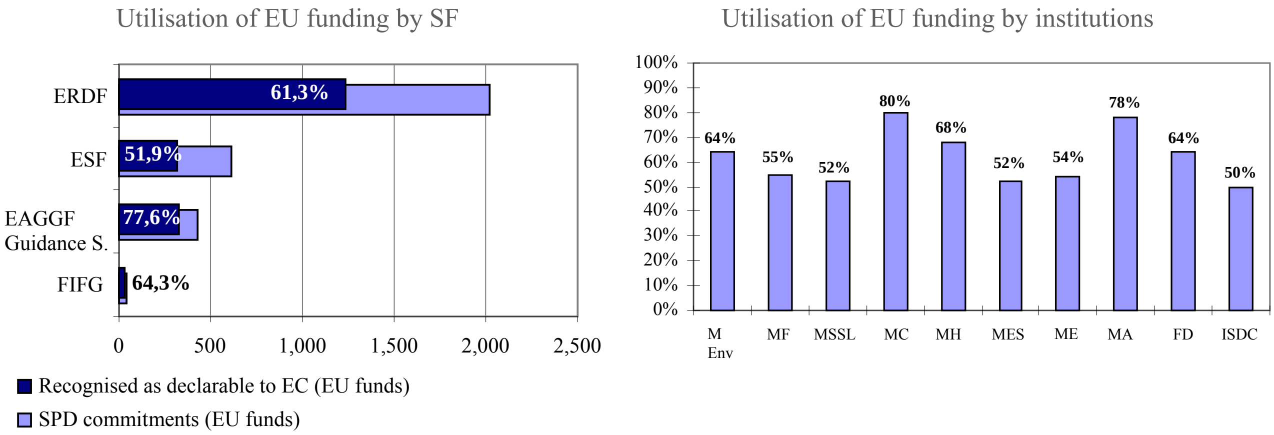
Source: Ministry of Finance

An analysis of the EU assistance utilisation by individual EU SF shows that as of the 31 December 2007 the EAGGF GS funding has the highest utilisation rate (77.6%) and ESF funding has the lowest utilisation rate (51.9%) (Figure 13).

As of 31 December 2007, the Ministry of Communication and the Ministry of Agriculture had the highest rates of utilisation of the EU assistance (80% and 78% respectively). 5 of 10 institutions responsible for the administration of the EU assistance[25] have utilised only 50–55% of the assistance funds. Account should be taken of the fact that the assistance utilisation rate is influenced by the type of the measures and projects as well as the differences in the scope of the EU assistance under administration.

[23] This is expenditure declarable to the Commission – eligible expenditure which was paid under payment applications submitted by projects and recognised as declarable to the Commission.
[24] Report on the financial status of the EU SF assistance prepared by the National Fund Department of the Ministry of Finance.
[25] Ministries of finance, social security and labour, education and science, economy and the Information Society Development Committee under the Government.

Fig. 13. Utilisation of EU funds allotted for SPD by EU structural funds and institutions as of 31 December 2007, %



Source: Ministry of Finance

It has been established, by analysing the use of the EU SF by individual SPD measures, that the lowest rate of funds utilisation is under the measure “Leader+“ administered by MA (24% of LTL 6.2 m of the EU funds allotted) and the measures administered by the Ministry of Economy: “Public Tourism Infrastructure and Services“ (27% of LTL 225.7 m of EU funds) and “Improvement of Business Environment“ (34% of LTL 103 m of EU funds).

Observation

In order to improve the monitoring of conclusion of agreements and use of funds under SPD measures, the Government of the Republic of Lithuania approved of the initiative raised by the Ministry of Finance to the effect that the intermediate authorities must draw up plans for the agreement conclusion and funds utilisation under SPD measures and submit such plans and information on implementation thereof to the Ministry of Finance, and the latter – to the Government[26]. According to the Ministry of Finance, the preparation of the plans has been discussed with the authorities and relevant letters were sent to them. In our opinion, without regulation of the monitoring of the preparation, approval, updating and implementation of the plans, a risk connected with the efficiency of these controls exists.

The observation also pertains to the plans for the conclusion of contracts and payments to contractors for the purposes of implementation of projects funded by CF (ISPA), which are prepared by the implementing authorities.

The Ministry of Finance has noted that there is a systematic monitoring of the plans‘ implementation (actual results are verified against targets on a monthly basis; the Government (recently – also the Seimas) are notified of the results), therefore, the absence of such regulation does not pose a risk to the efficiency of these controls.

The intermediate authorities furnish the Ministry of Finance with the information on SPD projects requiring increased supervision of implementation. According to the classification by the Ministry of Finance, such projects are those SPD projects which have utilised less than 5% of the funding allotted (funded only from ERDF and ESF) as well as other SPD projects (funded by all EU SF) and which require more supervision in the view of the intermediate authorities. According to the intermediate authorities[27], as of 31 December 2007 there were 202 such SPD projects, with the EU

[26] Minutes of the meeting of the Government of the Republic of Lithuania dated 14-07-2005 „Concerning information on the implementation of the EU assistance programmes“.
[27] Source: Letter by the Ministry of Finance to the Government dated 31-01-2008 No. ((4.72-02)-6K-0801250. „Concerning submission of information.

funding allotted to them amounting to LTL 502 m (which is by 167 SPD projects and LTL 275 m EU funds less than as of 31 October 2007).

The N+2 rule is applied to non-fulfilled commitments of the EU SF, which means that the commitments are to be cancelled if relevant payments were not made by the end of the second year following the commitment year[28]. According to the N+2 rule, the EU funds allotted in 2004–2005 must be used and declared to the European Commission (by submitting payment applications) by 31 December 2007, separately by structural funds. According to the Ministry of Finance[29], the N+2 rule, including the advance payments made by the Commission to Lithuania, was complied with as of 31 December 2007 for all the EU SF: EAGGF Guidance Section – 150.7%, ESF – 123.6%, ERDF – 121.7%, FIFG – 119.1% (total under SPD: 126.1%). It should be noted that the advance payments made by the Commission to Lithuania have influenced the compliance with the N+2 rule fore ach EU SF except EAGGF Guidance Section (Table 8).

Table 8. Compliance with the N+2 rule as of 31 December 2007 , LTL m and %

EU SF	SPD commitments (EU funds), LTL m				Funds declared to EC as of 31-12-2007, LTL m	Funds declared to EC as of 31-12-2007 including advances paid by EC, LTL m	Fulfilment of SPD commitments 2004–2005 (EU funds), %	
	Total	includ. 2004	includ. 2005	2004 and 2005			excl advances	incl advances
ERDF	2,016.2	488.4	708.8	1,197.2	1,134.8	1,457.4	**94.8**	121.7
ESF	608.4	126.5	183.7	310.2	286.1	383.4	**92.2**	123.6
EAGGF Guidance S.	424.3	110.3	144.3	254.6	315.8	383.6	124.0	150.7
FIFG	41.8	10.9	14.2	25.1	23.2	29.9	**92.4**	119.1
Total	**3,090.9**	**736.1**	**1,051**	**1,787.1**	**1,759.8**	**2,254.4**	**98.5**	**126.1**

Source: Ministry of Finance

Some of the reasons for **failure to use the appropriations** for the EU SF programmes in full, quoted by the appropriations administrators[30], were recurring in 2005–2007 and were characteristic of substantially all the EU SF:

- prolonged evaluation of applications and agreement signing process;
- prolonged public procurement procedures;
- insufficient administrative capacities of applicants;
- long process of agreeing on certain documents with assistance administration and other authorities.

In our opinion, the recurrence of the reasons for non-utilisation of appropriations shows that insufficient attention is devoted to the resolution of these issues.

[28] Source: paragraph 2.2 of Article 31 of Council Regulation of 21-06-1999 No. 1260/1999: *The Commission shall automatically decommit any part of a commitment which has not been settled by the payment on account or for which it has not received an acceptable payment application, as defined in Article 32(3), by the end of the second year following the year of commitment or, where appropriate and for the amounts concerned, following the date of a subsequent Commission decision necessary in order to authorise a measure or an operation or by the end of the deadline for the transmission of the final report referred to in Article 37(1); the contribution from the Funds to that assistance shall be reduced by that amount.*

[29] Source: Letter by the Ministry of Finance to the Government dated 31-01-2008 No. ((4.72-02)-6K-0801250. „Concerning submission of information.

[30] Source: annexes to explanatory notes to the statements of execution of the State Budget of the Republic of Lithuania for 2005–2007.

38% of the EU funding allotted to the SPD measures must be used by 31 December 2008, i. e. in one year. Due to accumulation of a large share of unused funds as of the end of the programming period there is a risk that part of these funds will not be utilised in due time. This may also affect the timely and proper use of the assistance for the new programming period 2007–2013 as the institutions will have to administer funds of two programming period simultaneously. *In the opinion of the Ministry of Finance, the results of 2004–2006 assistance utilisation cannot pose a threat to the timely and proper use of the assistance in the new programming period 2007–2013 as the utilisation in the two periods is governed by different legal acts and is implemented according to separate programmes.*

In our opinion, in case of clear regulation of the preparation, approval, updating and monitoring of the plans for the conclusion of agreements and utilisation of funds under SPD measures and payment of funds to contractors for the purposes of implementation of the CF (ISPA) projects, these plans could become more effective controls of the conclusion of agreements and funds utilisation.

Results of checks and audits of the EU SF assistance

▸ Checks of eligible expenditure by internal audit units

The purpose of the checks of eligible expenditure was to determine whether the projects have incurred expenditure in line with the provisions of the EU and Lithuanian legislation governing the provision and administration of the EU SF assistance and the expenditure is eligible and supported by expenditure documents. Table 9 shows the numbers of declared eligible expenditure checks completed by the internal audit units in 2005–2006, the main weaknesses identified, and the number of recommendations with implementation status.

Table 9. Checks of declared eligible expenditure under EU SF (SPD) carried out by internal audit units in 2005–2006

Year	Number of checks	Number of recommendations	Implementation of recommendations as of 01-09- 2007
2005	43	50	All implemented
2006	189	469	417 implemented

The checks in 2005 have established that all the declared expenditure checked is eligible.

During 2006 checks, declared ineligible expenditure amounted to: ERDF – LTL 9,600 and ESF – LTL 36,300. The most frequent reasons for recognising the expenditure as ineligible: incompliance of organisation and conduct of public procurement with provisions of legal acts; failure of the projects to comply with the procedures and time limits set in legal acts and agreements; audit trail of project expenditure not always ensured; inappropriate project expenditure accounting procedures; failure to duly execute employment contracts; incorrect calculation of remuneration for work.

Source: Ministry of Finance.

▸ Mandatory audits carried out by NAO

The audit **"Evaluation of the EU Structural Funds project applications selection system established in the Republic of Lithuania"** (public audit report dated 05-10-2005 No.1070-3-39) has established that the project proposal selection system is substantially compliant with the set requirements, except the following:

- some of the project evaluation and selection procedures are not completely clear and sufficient;
- no sufficient controls were in place or their operation was insufficient;
- there are cases where clear project evaluation and selection criteria have not been established.

All the 35 recommendations made by the auditors were implemented as of 1 December 2007.

The audit **"Evaluation of Statements of Expenditure of the EU Structural Funds (SPD Objective 1) of 2004–2006 1st Half"** (public audit report dated 02-05-2007 No. FA-1070-4P-12) has established that:

- there are cases where expenditure declared by beneficiaries and recognised as declarable to the European Commission are not eligible according to the EU and Lithuanian legal acts;
- the implementing agencies and the intermediate authorities lack capacities to identify errors, assess the documents (completeness and correctness thereof), and to correctly apply the Labour Code and the Law on Public Procurement of the Republic of Lithuania;
- controls implemented by the intermediate authorities are fragmentary; no controls implemented at project administration and implementation sites. Some internal audit units did not fulfil their duty to check final beneficiaries;
- evaluation of declarable expenditure in payment requests has revealed audit trail weaknesses (no evidence of payment to service providers and employees engaged in the project).

Out of 32 recommendations made by auditors, 59% were fully implemented and 31% were partially implemented as of 31 December 2007.

The audit **"Evaluation of EU Structural Funds' system of sample checks on operations (R.438/2001 Art.10 – 12)"** (public audit report dated 20-12-2007 No. FA-P7-70-3-57) has established that random checks of activities were not carried out properly due to insufficient capacities of relevant institutions:

- the Ministry of Finance (the audit coordinating authority) provided inaccurate information to the Commission on the sample checks on operations and the declared eligible expenditure checks and failed to provide to internal auditors clear methodological guidance on certain requirements set by the Commission;
- the management and control system's efficiency checks made by internal audit units of certain ministries did not comply with the requirements set for such checks, while the requirement that at least 5% of the eligible expenditure must be checked was fulfilled only partially or not according to the provisions of Commission regulations. Sample checks on operations at the Ministry of Economy were carried out by a private audit firm under a service agreement which did not meet the basic provisions of Commission regulations. The service provided was of low quality. We recommended that the sample checks on operations at the Ministry of Economy would be carried out repeatedly and the managing authority would organise a check of documents supporting payments to the said audit firm from the technical assistance project funds.

66 recommendations were made during the audit. The time limit set for their implementation has not expired as of 31 December 2007.

Performance audits carried out by NAO

The audit **"Evaluation of control of the common information system and the EU Structural Funds and Cohesion Fund Management and Monitoring Information System" ("SFMIS")** (public audit report dated 13-07-2006 No. IA-9000-2-1) has established that:

- control over the SFMIS project was insufficient (SFMIS project documents not approved, the opportunities available to the IT steering committee not used in full, intuitive management of the system development risk);
- the development of the system was started without the drawing up/approval of legal acts and procedures governing the management of the EU SF and CF and without completion of a detailed feasibility study;
- procedures of the intermediate and implementing authorities were not harmonised with the SFMIS requirements;
- low efficiency of SFMIS development: SFMIS was operated without using part of the functionality developed.

All the 10 recommendations made by the auditors were implemented as of 31 December 2007.

The audit **"Establishment of the Network of Protected Areas "NATURA 2000" in Lithuania"** (public audit report dated 29-09-2006 No. 2020-6-22) has established that:

- several areas significant for the protection of habitats were not effectively managed and protected up until 15 June 2006 as for more than one year from the date of establishment of the areas no institution was appointed to make evaluations and proposals for the planning and implementation of area management actions;

- authorities responsible for the implementation of environmental projects related to the establishment of Natura 2000 in Lithuania failed to ensure effective organisation of all projects and timely and quality performance of project works; there was no sufficient Project implementation monitoring and control.

All the 10 recommendations made by the auditors were implemented as of 31 December 2007.

The audit **"Development of fisheries sector"** (public audit report dated 06-09-2007 No. VA-P-10-5-14) has established that:

- the cod quotas set by the Council cannot satisfy the minimum demand that would ensure competitiveness of fishing capacities;

- Lithuanian fishing enterprises can make use of their opportunities more effectively when they exchange the fishing quotas with other Member States;

- in 2006 the National Paying Agency rejected three project proposals under area of activity "Final termination of vessel operations" without valid grounds.

- decision adoption on the allocation of assistance to fisheries is prolonged, which negatively affects the applicants' business.

9 recommendations were made during the audit. The time limit set for their implementation has not expired as of 31 December 2007

▸ Assessment of legality and regularity of underlying transactions in the Member States by the European Court of Audit (cohesion policy)

An audit carried out by the European Court of Auditors revealed a material level of legality and regularity errors in the area of compensation for expenditure incurred by the cohesion policy projects. The level of such errors was higher in case of ERDF and ESF compared to other SF and the Cohesion Fund. Errors related to eligibility for funding were most frequent. Such errors comprise the inclusion of ineligible expenditure in the expenditure declarations and failure to comply with the mandatory public procurement procedures.

This annual audit by the European Court of Auditors did not cover Lithuania. However, in order to reduce the risk of such errors, the institutions responsible for the administration of the EU SF assistance in Lithuania should take these general remarks by the ECA into consideration.

The main weaknesses established by the NAO during mandatory audits in 2005–2007 were related to insufficient clarity of project evaluation and selection procedures; insufficient capacities of implementing and intermediate authorities to identify errors and to ensure that the declarable to the European Commission expenditure submitted in the reports is eligible and correct; weaknesses in the conducting of sample checks on operations. Recommendations have been made for the elimination of these weaknesses.

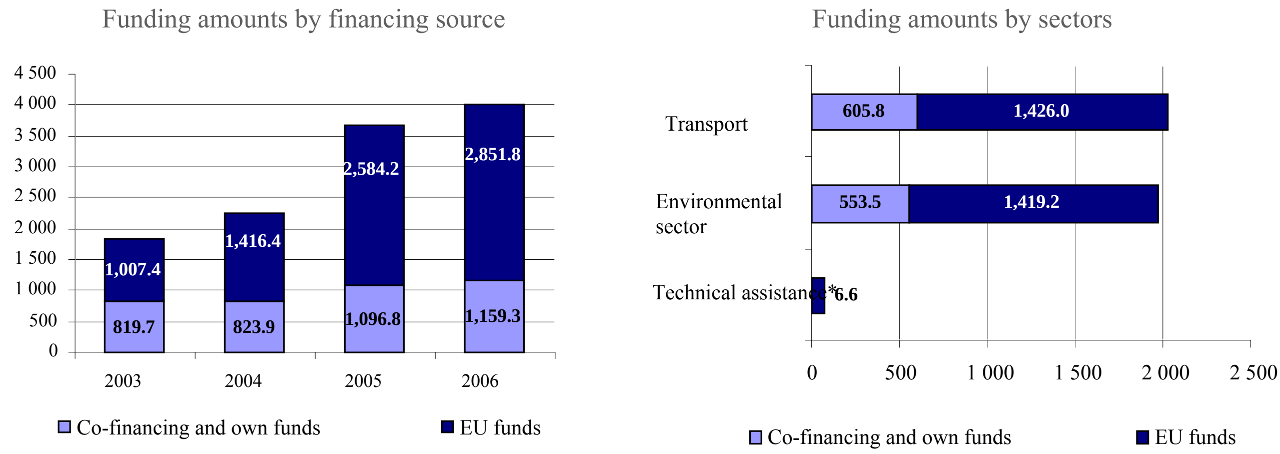
During performance audits carried out in 2006–2007, the NAO has established weaknesses in the administration of the EU SF assistance. It has also been noted that the efficiency of development of the EU Structural Funds and Cohesion Fund Management and Monitoring Information System ("SFMIS") was insufficient – the information system was operated without using part of the developed functionality. Recommendations have been made for the elimination of these weaknesses.

2.2.3. Cohesion Fund (ISPA)

Scope of assistance from the Cohesion Fund (ISPA). Since 2000, the CF (ISPA) assistance was provided to 53 transport and environmental infrastructure rehabilitation and technical assistance projects in Lithuania.

The total value of CF (ISPA) projects approved by Commission decisions in 2000–2006 and implemented in Lithuania amounts to LTL 4.01 bn (including almost LTL 2.85 bn of EU assistance and LTL 1.16 bn co-financing and own funds[31]). The total value of transport sector projects is LTL 2,032 m and environmental sector projects LTL 1,973 m (Figure 14)[32].

Fig. 14. Funds allotted to CF (ISPA) projects approved by the Commission by funding source (increasing order) and sectors in 2003–2006, LTL m



* Technical assistance administered by the Ministry of Finance

Note: the values of TA projects under the responsibility of TIA and EPMA have been included in transport and environmental sectors[33].

Source: European Commission and Ministry of Finance

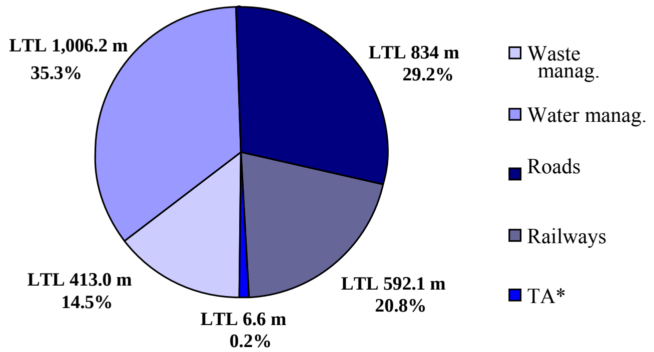
[31] In case of EU SF and the Cohesion Fund, part of the financing must be secured by the Member State.

[32] Note: in the section on CF-funded projects in the website on EU structural assistance managed by the Ministry of Finance (www.esparama.lt), the information on values of certain CF-funded projects is not accurate. E. g. the specified total value of the project on Kaunas wastewater treatment facilities No. 2001/LT/16/P/PE/001 is EUR 31.9 m, while in the Financing Memorandum the value of the projects is EUR 22.4 m.

[33] The projects under TA horizontal measures are aimed at the overall assessment of the system or comparison of the impact of assistance, whereas TA measures and studies are related to sector-specific projects. Therefore, horizontal TA measures are presented separately (see TA managed by the Ministry of Finance), while TA measures and studies were joined to transport and environmental sectors. The method of projects' classification by sectors is the same as the one applied by the Commission. It should be noted that in the reports prepared by the paying authority the sectoral information is presented excluding TA projects, while the managing authority includes TA projects.

Transport and environmental sectors financed by CF (ISPA) are grouped according to project types. Assistance to the transport sector consists of funding to road rehabilitation and railway rehabilitation. Assistance to the environmental sector consists of funding to water management and waste management projects. The majority of the EU funding goes to water management (35.3%), while waste management accounts for the smallest share (excluding technical assistance) – 14.5% (Figure 15).

Fig. 15. Breakdown of EU funding for CF (ISPA) by areas, LTL m and %.



* Technical assistance administered by the Ministry of Finance .

Note: the values of TA projects under the responsibility of TIA and EPMA have been included in transport and environmental sectors. TA funds allotted to the environmental sector have been divided equally between waste management and water management .

Source: Ministry of Finance

The **need for additional funding** (by the end of the project implementation term) for the CF (ISPA) projects resulting from increased prices amounted to **LTL 1,132.2 m** as of 31 December 2007[34] (which accounts for over 4% of the state budget appropriations approved for 2008). The value of the transport sector projects increased by LTL 187.2 m, while that of environmental projects – by LTL 945 m.

Observation

The co-financing and own funds allotted to the CF (ISPA) projects approved by decisions of the Commission amounts to LTL 1,159.3 m. The need for additional funding as of 31 December 2007 exceeded this amount by 97.7% (Table 10).

Table 10. The value of CF (ISPA) projects approved by the Commission and increase in the share of co-financing and own funds as of 31 December 2007, LTL m and %

Sector	Area	Total value approved by EC, LTL m	Co-financing and own funds			
			EC approved value, LTL m	Value upon increase, LTL m	Difference	
					LTL m	%
Transport	Roads	1,038.4	206.5	353.3	146.8	71.1
	Railways	968.1	393.0	432.5	39.5	10.1
	Technical assistance	25.4	6.3	7.2	0.9	14.3
	Total	**2,031.9**	**605.8**	**793.0**	**187.2**	**30.9**
Environment	Water management	1,325.7	363.2	1,085.9	722.7	199.0
	Waste management	539.2	170.0	390.6	220.6	129.8
	Technical assistance	107.8	20.2	21.9	1.7	8.4
	Total	**1,972.7**	**553.4**	**1,498.4**	**945.0**	**170.8**
Technical assistance*		6.6	0	0	0	0
Total		**4,011.1**	**1,159.3**	**2,291.4**	**1,132.2**	**97.7**

* Technical assistance administered by the Ministry of Finance

Note: the values of TA projects under the responsibility of TIA and EPMA have been included in transport and environmental sectors.

Source: Ministry of Finance

[34] Letter by the Ministry of Finance to the National Audit Office dated 20-02-2008 No. (4.54-06)-6K-0802007 „Concerning submission of information".

The increase in the project value is not so marked in the transport sector compared to the environmental sector. According to the Ministry of Finance[35], the largest increase among the transport sector projects has been recorded for the project No. 2004/LT/16/C/PT/008 "Construction of the missing link in the transport corridor IXB – Vilnius southern bypass": the need for additional funding amounts to LTL 80 m or 39.2% of the project value approved by the decision of the Commission.

There has been a particularly marked increase in the value of environmental projects. According to the Ministry of Finance, the highest need for additional funding has been established for the project No. 2004/LT/16/C/PE/004 "Lower Nemunas basin project, Package 1": LTL 195 m or 149.2% of the project value approved by the decision of the Commission[36].

Observation

The need for additional funding for the transport sector projects has been established based on the value of contracts. As 98% of the contracts were signed by 31 December 2007 (see Fig. 17), no significant change in the additional funding is expected.

In the environmental sector, the need for additional funding has been established based on both concluded contracts and anticipated contracts (based on the rates for works, materials and equipment valid as of the calculation date). Given that 61.8% of contracts were signed as of 31 December 2007 and taking account of inflation rates, it is expected that the need for additional funding in the environmental sector is going to increase.

According to the Ministry of Finance, difficulties related to the need for additional funding for transport sector projects have already been resolved. Actions taken to resolve the issue of additional funding for transport sector[37]:

- by order of the Minister of Finance[38], a working group was formed for the examination of issues of additional funding for environmental projects. At its meetings the working group examines and prepares proposals, taking account of financial capacities of local authorities, for the setting of the size of additional funding from the state budget and own funds of final beneficiaries (local authorities, municipal enterprises); for abandoning components that are not indispensable for achievement of project objectives; for identification of objects of discussions with the European Commission;

- additional funding from the state budget has been provided for;

- in order to start negotiations for the abandoning of part of project components without reduction of the assistance to the project by the Commission, the Commission has been informed about the situation in the environmental sector in terms of the need for additional funding.

The said working group has indicated[39] that LTL 333.4 m are lacking for the implementation of municipal environmental projects. It is proposed that LTL 41.7 m are allotted from the budget of local authorities, LTL 102.3 m are allotted from the state budget and that the Commission is

[35] Letter by the Ministry of Finance to the National Audit Office dated 20-02-2008 No. (4.54-06)-6K-0802007 „Concerning submission of information".
[36] The Ministry of Finance has noted that, in case of this project, the need for additional funding may change upon signature of contracts and depending on results of negotiations with the Commission.
[37] Letter by the Ministry of Finance to the National Audit Office dated 20-02-2008 No. (4.54-06)-6K-0802007 „Concerning submission of information".
[38] Order by the Minister of Finance No. 1K-004 of 040-1-2008 „Concerning formalion of a working group".
[39] Letter by the Ministry of Finance to the Government No. 4.52-06-64-0802395 of 29-02-2008 „Concerning of allocation of additional funding for the environmental sector".

approached concerning LTL 189.4 m, i. e. for the permission to abandon these project components without reducing the total value of assistance (see the example below). At present it is not known whether the Commission will give a permission to abandon some project components without reducing the total value of assistance.

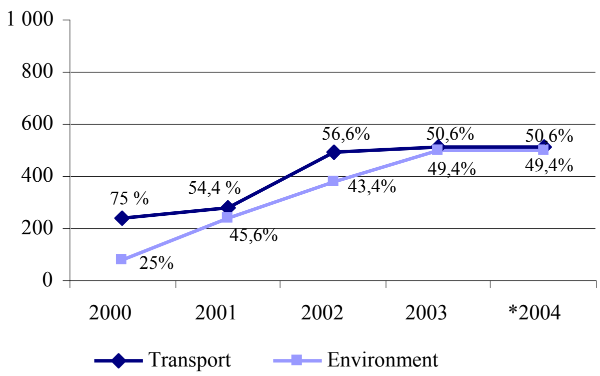
Example

The value of components of the project No. 2004/LT/16/C/PE/002 "Mid-Nemunas river basin project. Package 1", which are proposed to be abandoned (reconstruction of pumping stations in Panevėžys, water-supply and sewerage systems extension and development in different regions of Lithuania), is LTL 64 m; the value of components of the project No 2002/LT/16/P/PE/011 "Establishment of Marijampolė regional waste management system" (construction works for the closure of landfills in 6 municipalities, purchase of mobile landfill equipment) is LTL 26.4 m; the value of components of the project No 2004/LT/16/C/PE/001 "Establishment of Kaunas regional waste management system" (closure and site management of part of landfills and dumps, purchase of operations and other equipment) is LTL 18.6 m.

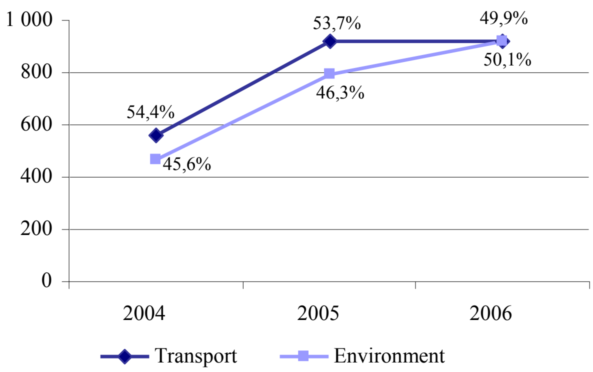
Ensuring balance between environmental and transport projects. The Regulation concerning the establishment of the Cohesion Fund[40] requires that proper balance between projects implemented in the environmental sector and projects related to transport infrastructure must be ensured.. The European Commission has stated that the balance of assistance to these two sectors must be 50:50, therefore, the new Member States receiving assistance from the Cohesion Fund have undertaken to maintain the balance of investments in these sectors in the programming period 2004–2006. The Strategy for the Cohesion Fund for 2004–2006 approved by a joint order of the Lithuanian ministers of finance, environment and communications[41] states that, following the said provision, the CF resources for each Member State receiving assistance from this fund must be allocated equally to the environmental and transport projects throughout the funding period. Figure 16 shows the values of ISPA- and CF-funded transport and environmental projects approved for Lithuania by the Commission as well the balance in 2000–2006.

Fig. 16. Values of the ISPA and CF environmental and transport sector projects in 2000–2006 (increasing order), %

Values of approved ISPA projects in 2000–2004



Values of approved CF projects in 2004–2006.



Note: the transport sector share has changed insignificantly upon reformation of projects No. 2000/LT/16/P/PT/004 and 2001/LT/16/P/PT/006 into No. 2004/LT/16/P/PT/009.

Source: European Commission

[40] Council Regulation 16-05-1994 No. 1164/94: *„...balance between the funding of transport infrastructure projects and environmental protection projects must be ensured".*

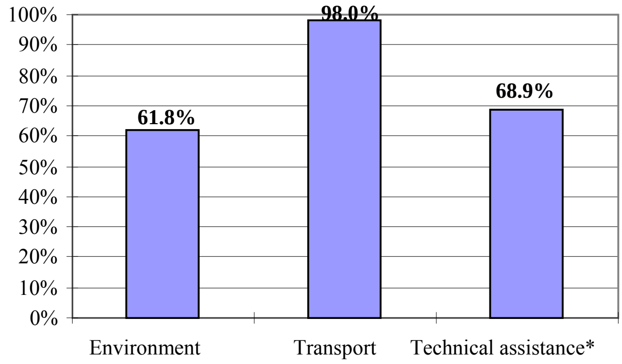
[41] Order by the Minister of Finance, Minister of Environment and Minister of Communication No. 1K-054/D1-79/3-99 of 20-02-2004 „Concerning approval of the Cohesion Fund Strategy for 2004–2006".

In the beginning of the period of rendering ISPA and CF assistance, the value of the transport sector projects was higher than that of environmental projects. To sum up, one may assert that the balance between the values of ISPA and CF transport and environmental projects approved for 2000–2006 has been substantially maintained.

Utilisation of CF (ISPA) assistance. According to the Ministry of Finance[42], **the value of concluded contracts in the transport sector amounts to LTL 2,174.6 m as of 31 December 2007, or 98%** of total value of the projects approved by decisions of the Commission including additional funding and is higher than **the value of the signed environmental sector contracts (LTL 1,803.6 m or 61.8%)** (Figure 17).

As of 31 December 2007, 83 transport sector contracts were signed and implementation of 54 of them was completed (65%); 7 more are to be signed. In the environmental sector, 315 were signed and 105 completed (33%); 65 are planned to be signed (Table 11).

Fig. 17. Value of the signed CF (ISPA) contracts as a share of the value of projects approved by EC including additional funding, by sectors, as of 31 December 2007,



* Technical assistance administered by the Ministry of Finance.

Source: Ministry of Finance

Table 11. Number of CF (ISPA) contracts signed, completed and planned to be signed, as of 31 December 2007

Number of contracts	Environmental sector			Transport sector			Technical assistance*
	Water manag.	Waste manag.	TA	Roads	Railways	TA	
Signed	140	87	88	32	36	15	8
- including completed	37	36	32	26	15	13	3
	26%	*41%*	*36%*	*81%*	*42%*	*87%*	*38%*
Planned to be signed	45	20	1	1	4	2	4

* Technical assistance administered by the Ministry of Finance.

Source: Ministry of Finance

Signing of contracts is particularly important at the beginning of implementation of projects funded by the CF. According to the rule[43], project implementation must be started within 24 months from the date of decision to grant assistance to the project or the date of project approval, otherwise assistance may be cancelled. At the 6th meeting of the monitoring committee of the Cohesion Fund[44], representatives of the Commission warned Lithuania about potential application of the rule to five projects financed from the CF. The Ministry of Finance has informed that implementation of one of the projects has already been started and the rule is no longer applicable to this project.

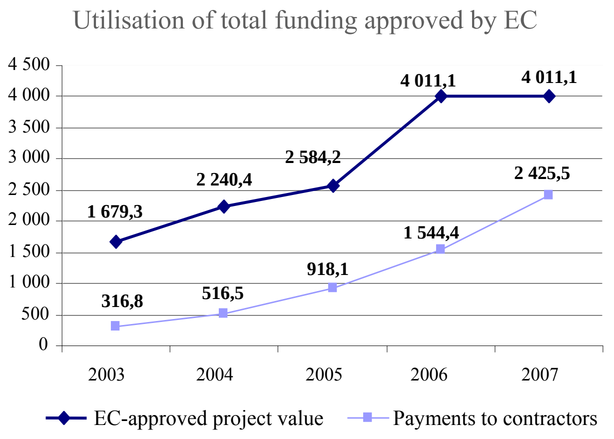
[42] Letter by the Ministry of Finance to the National Audit Office dated 20-02-2008 No. (4.54-06)-6K-0802007 „Concerning submission of information".
[43] Rule „M+24". Source: Item 5, Article C, Annex II to Council Regulation of 16-05-1994 No. 1164/94: Except in duly justified cases, the assistance granted to a project, group of projects or project stage on which work has not begun within two years from the date of its expected start as indicated in the decision granting assistance or the date of its approval if later, shall be cancelled
[44] Meeting No. 6 of the Cohesion Fund Monitoring Committee took place on 16–18 October 2007.

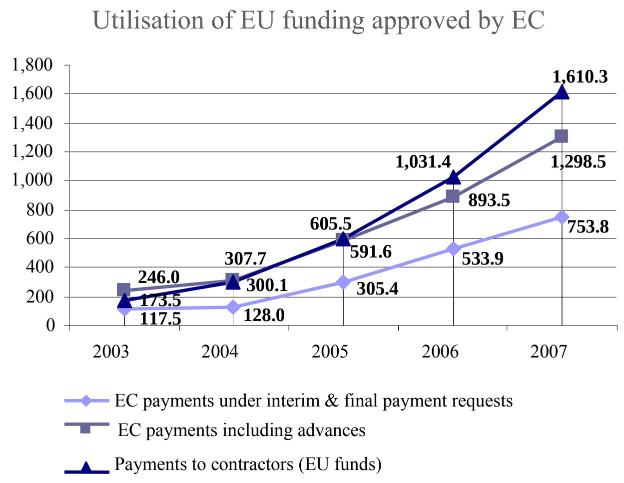
Observation

Part of important information on the implementation of the CF-funded projects and utilisation of funds is not publicly available. The information published in the website on EU structural assistance managed by the Ministry of Finance (www.esparama.lt) is not detailed enough, therefore, in our opinion, website users can get a wrong impression about implementation of the projects.

LTL 2,425.5 m of the funds approved by the Commission for the CF (ISPA) projects were used as of 31 December 2007[45] (including EU funds LTL 1,610.3)[46] This accounts for **60.5% of the total value of the CF (ISPA) projects approved by the Commission** (56.5% of the EU funds allotted to projects) (Figure 18).

Fig. 18. Values of the ISPA and CF projects approved by the Commission and utilisation of funds (increasing order) as of 31 December 2007, LTL m





Source: Ministry of Finance

Observation

The information on the use of the CF (ISPA) assistance in Lithuania comprises details on the EU assistance paid to contractors, which shows the value of completed works to be paid by the Commission. In our opinion, the public should also be informed about the amounts paid by the Commission.

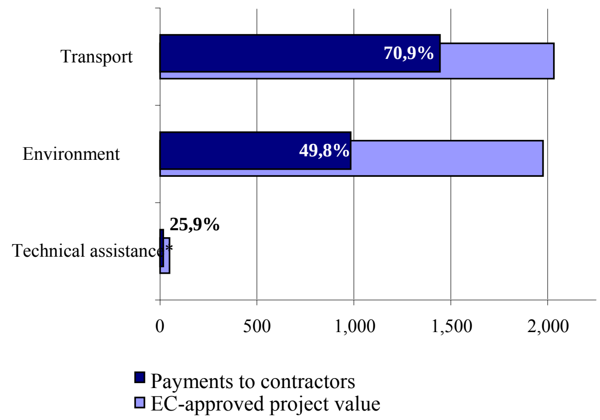
An analysis of funds utilisation by sectors shows that as of 31 December 2007, LTL 1,441.3 m were paid to transport sector contractors, which accounts for 70.9% of the total project value in the transport sector approved by the Commission. In the environmental sector, the contractors were paid LTL 982.5 m or 49.8% of the project value approved by the Commission for this sector. As of the said date, LTL 1.7 m (or 25.9% of the approved value) were paid to the technical assistance projects administered by the Ministry of Finance[47] (Figure 19).

[45] Paid to contractors.
[46] Report on the financial status of the EU SF assistance prepared by the National Fund Department of the Ministry of Finance.
[47] Note: the section on CF-funded projects in the website on EU structural assistance managed by the Ministry of Finance (www.esparama.lt) reads that LTL 3 m were paid to the contractors under the TA projects managed by the Ministry of Finance, i.e. 42% of the EU assistance was used.

The N+12 rule[48] is applied to the Cohesion Fund, meaning that if the European Commission does not receive a payment application within 12 months from the date when the advance payment was transferred to the account, the amount transferred must be repaid in full or in part. At the 6th meeting of the Monitoring Committee of the Cohesion Fund, representatives of the Commission have noted that in 2008 the period of the N+12 rule will expire for six CF-funded projects in Lithuania. The Ministry of Finance has indicated that there is no risk related to the application of the N+12 rule as all the payment applications will be submitted in due time.

In its evaluation of the utilisation of the CF (ISPA) funding, the Ministry of Finance has identified certain risky projects which may remain not completed by the end of 2010 for various reasons (see examples below).

Fig. 19. Utilisation of CF (ISPA) project funding approved by the Commission, by sectors, as of 31 December 2007



* Technical assistance administered by the Ministry of Finance

Source: Ministry of Finance

Examples

Project No. 2003/LT/16/P/PE/017 "Hazardous waste management in Lithuania" is one of the projects the attainment of whose objectives requires implementation of all components and physical indicators (it is estimated that the total project value including additional funding will be LTL 129.8 m (including EU funds LTL 72.5 m). Lithuania has committed itself, in the financial memorandum, to complete the project by 31 December 2008. The main component of the project (purchase and installation of incineration equipment) accounts for approx. 67% of total project value), however the contract had not been signed as of 1 April 2008. According to the Ministry of Finance, at least 2.5 years will be required for the implementation of the project upon signature of the contract. A request for extension of the project term has been sent to the Commission, however, there remains a risk that even if the extension is granted the project will not be completed within the remaining period of CF assistance (by the end of 2010).

The rates of implementation of similar water management projects differ greatly from municipality to municipality. Only a small part of contracts for the implementation of management projects have been signed in the municipalities of Vilnius, Šalčininkai, Širvintos, Šiauliai, Pasvalys, Joniškis, Radviliškis, Zarasai and Visaginas as of February 2008, whereas the rates in other municipalities are higher. It is possible that these municipalities will not be able to complete all the project works by the end of 2010, as a result of which the amount of CF assistance may be reduced.

[48] Source: Source: Item 2a, Article D, Annex II to Council Regulation of 16-05-1994 No. 1164/94: *a single payment on account of 20 % of the Fund assistance as initially decided shall be paid when the decision granting Community assistance is adopted and, except where duly justified, after signature of the contracts relating to public procurement. All or part of a payment on account shall be repaid by the designated authority or body referred to in paragraph 1 if no payment application is sent to the Commission within 12 months from the date on which the payment on account is paid.*

The main reasons for failure to utilise appropriations from the Cohesion Fund as identified by the appropriations administrators are as follows[49]:

Environmental sector:

- failure to utilise the funds in 2005–2006 resulted from the lack of highly qualified consultants in the market, offers for designing services not complying with the requirements, prolonged procurement procedures, prices quoted in the proposals markedly exceeding the budgets available as a result of which no contracts were signed;

- in 2007 not all the planned service and works contracts were signed through the lack of experience at the local authorities (in 2007, the procurement function under the CF-funded projects was transferred to local authorities by the Environmental Projects Management Agency) and due to increased prices for construction works (the local authorities had to finance part of the funds in excess of the Commission's decisions from their own resources, however, they had exhausted their borrowing limits in 2007).

In the transport sector, the reasons for non-utilisation of funds were recurrent in 2005–2007:

- *roads* – cancellation of public procurement procedures due to too high tender prices; delayed signing of contracts resulting from prolonged detailed planning and taking of land for public needs;

- *railways* – failure to sign contracts in due time, failure of contractors to fulfil their contractual obligations, suspension of procurement due to claims.

The increased value of projects financed from the CF (ISPA) must be paid by national funds. If no sufficient national funds are allotted, certain components of the projects approved by the Commission (goods, services and works) will have to be abandoned. Therefore, there exists a risk that not all the project objectives will be attained. In our opinion, an assessment must be made of whether the increase in the project value is always justified.

As the share of unused EU funds accounts for 43.5% and the value of environmental contracts not signed accounts for 38.2%, there is a risk that part of the funds allotted for the implementation of the CF (ISPA) projects will remain unused by the set term.

Results of CF (ISPA) checks and audits

▸ Checks of eligible expenditure by internal audit units

As of 31 December 2006, approx. 26% of all the eligible expenditure under the CF (ISPA) declared to the Commission were checked. Table 12 shows the number of checks of the declared eligible expenditure carried out by internal audit units, the main weaknesses established, the number of recommendations made with the implementation status.

[49] Source: annexes to explanatory notes to the statements of execution of the State Budget of the Republic of Lithuania for 2005–2007.

Table 12. Checks of declared eligible expenditure of the CF (ISPA) conducted by internal audit units in 2004–2006

Year	Number of checks	Number of recommendations made	Implementation of recommendations as of 01-09-2007
2004	7	50	All implemented
2005	4	13	All implemented
2006	12	34	25 implemented in full, 6 in part

No ineligible expenditure has been established during internal audit units checks in 2004–2006. In 2006, certain irregularities were established due to low quality of on-the-spot checks by implementing authorities, weaknesses of audit trail, incompliance with information and publicity requirements, problems related to entry of data in the EU SF and CF management and monitoring information system (SFMIS), failure to keep separate project accounting, incompliance with public procurement requirements, and lack of clarity in the division of tasks and responsibilities among the intermediate and implementing authorities and final beneficiary.

Source: Ministry of Finance

▸ Mandatory audits carried out by the NAO

The results of winding-up audits of the CF projects are provided in Annex 5 and the status of implementation of audit recommendations in Table 13.

Main observations resulting from the winding-up audits carried out by NAO in 2004–2007:

- Three of the seven winding-up audits of the CF-funded projects have established **inappropriate use of funds**, however, their value did not exceed 1% of the materiality level;

- audit conclusions on **the control and management system in the environmental sector** drawn in the winding-up audits were mainly related to the Environmental Projects Management Agency, which had failed to ensure proper performance of functions and control: the set deadlines and provisions of legal acts are not complied with, there is no sufficient separation of functions, control for payments and accounting is not ensured, the procedural manual of the EPMA has not been prepared properly (it is not approved as of 31 October 2007). In the transport sector, not all project expenditure is duly disclosed in the accounting records of the National Fund Department of the Ministry of Finance, the Transport Investment Authority and the Lithuanian Road Administration. Both environmental and transport sectors lack properly qualified employees for the performance of accounting and control functions;

- conclusions of the winding-up audits in the **public procurement area** are mainly related to failure to comply with the Law on Public Procurement. It has been noted that the rights and duties of the implementing authority related to the participation in and control over public procurement procedures conducted by final beneficiaries have not been provided for;

- the implemented **publicity measures** almost always comply with the set requirements but final project reports do not always contain detailed information on the publicity measures;

- upon evaluation of the **final reports**, **final applications for payment** and **final statements of expenditure** in the winding-up audits, in five case of seven it has been established that the final statements of expenditure give a true view of the expenditure incurred, in all material respects, i. e. the figures in the statements are correct and based on accounting records and supporting documents and the expenditure identified by the Commission have been included in the statements. In two cases it has been established that final reports and applications for payment have been drawn up incorrectly (in one case – ineligible expenditure included).

Table 13. Status of implementation of recommendations made by NAO upon winding-up audits of the CF (ISPA) projects carried out in 2004–2007, as of 31 December 2007

Audit	Number of recommendations	Implementation status as of 31-12-2007
Winding-up audit of ISPA project No 2001/LT/16/P/PA/003 "Preparation by the National Fund and ISPA implementing agencies to apply the procedures of the Extended Decentralised Implementation System (EDIS) covering the deficiency evaluation, preparations for EDIS and compliance assessment phases"	10	All implemented
Winding-up audit of Cohesion Fund (ISPA) project No. 2000/LT/16/P/PT/002 „Development of the Via Baltica Road in the years 2000 – 2003"	29	83% implemented in full, 14% in part
Winding-up audit of Cohesion Fund (ISPA) project No 2000/LT/16/P/PA/001 "Technical assistance for the development of railway Cretan Corridors IXB, IXD and I"	10	50% implemented in full, 10% in part
Winding-up audit of Cohesion Fund (ISPA) project No. 2002/LT/16/P/PT/007 "Reconstruction of Transport Corridor IXB in 2003–2004"	15	73% implemented in full, 7% in part
Winding-up audit of Cohesion Fund (ISPA) project No. 2000/LT/16/PT/003 "Modernisation of Pan-European IA Transport Corridor in 2001–2004"	4	50% implemented
Winding-up audit of Cohesion Fund (ISPA) project No. 2003/LT/16/P/PA/004 "Technical assistance for increasing capacities of the Ministry of Environment to administer EU financial assistance"	6	33% implemented in full, 17% in part
Winding-up audit of Cohesion Fund (ISPA) project No. 2000/LT/16/P/PE/002 "Modernisation and rehabilitation of the Druskininkai wastewater treatment system"	10	70% implemented in full, 10% in part

▸ Performance audits carried out by NAO

The audit **"Management of domestic waste"** (public audit report dated 09-05-2006 No. 2020-20-2) has established that:

- Lithuania does not apply an advanced hierarchy of waste management principles, i. e. the waste management method of lowest priority – disposal in landfills prevails in waste management;
- waste recording has not been duly organised on national scale and is not accurate enough;
- not all the regional waste management projects will be completed by the term set by the Commission. The delay is caused by prolonged decision-adoption processes, low quality of projects and tender documentation;
- lack of clarity in the division of functions among institutions participating in the development of the regional waste management systems and lack of constructive cooperation, which has not ensured smooth and effective implementation of projects and utilisation of funds.

Out of 7 recommendations made during the audit, all have been partially implemented as of 31 December 2007.

The audit **"Implementation of audit recommendations made in the public audit report "Evaluation of implementation of the State Hazardous Waste Management Programme"** (public audit report dated 30-03-2007 No. 2020-3-3) has established that:

- the hazardous waste management project No. 2003/LT/16/P/PE/017 funded by the EU and co-financing funds should enable the resolution of problems of long-term storage and utilisation of hazardous waste;
- the said project, whose value is EUR 28.8 m, was launched in 2003 and should be completed by 31 December 2008, however, at the time of the audit it was in the phase of design works, preparation of tender documentation and public procurement. The amount paid under the contracts signed by 31 December 2006 was just EUR 2.1 m

(note: there have been no changes in the amount paid to contractors as of 31 December 2007). There is a risk that the project will not be completed in due time.

Out of 7 recommendations made during the audit, 57% have been implemented in full and 43% - in part as of 31 December 2007.

The audit **"Use of state investments in waste-water treatment"** (public audit report dated 30-03-2007 No. VA-20-2P-2) has established that:

- there was a delay in the implementation of all the waste-water treatment projects and signing contracts, therefore, there is a risk that Lithuania will not complete all the project works in due time and will not meet its obligations in the waste-water treatment area;

- there is no approved procedure agreed with the European Commission which would establish what documents, how and when should be submitted to the Commission in order to obtain an extension of the term of the Financial Memorandum;

- current waste-water treatment projects' management principles do not encourage local authorities to use their resources and opportunities more effectively in the project implementation process and to assume greater responsibility for the project results. The local authorities are not obligated to report to the Government on the performance of the functions assigned and on the use of funds received from the EU and state budget for investment projects;

- the Lithuanian legal acts do not provide for a period or project phase in which agreements on the division of tasks and responsibilities between the Environmental Projects Management Agency and local authorities and/or waste-water treatment companies should be concluded. Such agreements were concluded after the launch of the projects, therefore, there was no timely and proper division of the project implementation and coordination functions among the institutions.

Out of 12 recommendations made during the audit, all have been partially implemented as of 31 December 2007.

The winding-up audits of the CF (ISPA) projects carried out by NAO in 2004–2007 has established cases on inappropriately used funds, weaknesses in the management and control systems, lack of compliance with the Law on Public Procurement etc. Recommendations for the elimination of weaknesses have been made.

Performance audits carried out by NAO in 2006–2007 have established a delay in the implementation of domestic waste management, waste-water treatment and hazardous waste management projects. Project management was inefficient due to the lack of division of tasks and responsibilities among local authorities and institutions administering CF (ISPA) assistance. Recommendations for the elimination of weaknesses have been made.

2.2.4. European Agricultural Guidance and Guarantee Fund Guarantee Section

Scope of assistance from the Guarantee Section of the European Agricultural Guidance and Guarantee Fund. In the programming period 2004–2006, the **EU assistance (EAGGF Guarantee Section funds) and co-financing** for direct payments, market regulation measures and RDP measures amounted to approx. **LTL 3.8 bn** (EU assistance LTL 3.38 bn and co-financing for RDP measures LTL 0.42 bn) (Table 14).

Table 14. EU assistance (EAGGF Guarantee Section) and co-financing (for RDP measures) for agriculture and rural development in 2004–2006, LTL m

Measures	Financing source	2004	2005	2006	Total
Direct payments*	EU	283.4	360.3	466.4	**1,110.1**
Market regulation measures**	EU	88.4	218.1	276.0	**582.5**
RDP measures	EU	508.6	566.6	614.9	**1,690.1**
	Co-fin.	127.1	141.7	153.7	**422.5**
Total		**1,007.5**	**1,286.7**	**1,511.0**	**3,805.2**

* Basic payment and payment for sugar (2006). The direct payments amount takes account of the maximum assistance amount approved by EU legal acts.
** Intervention measures and export refunds. The amount allotted to Lithuania under the Copenhagen proposal is presented as market regulation measures (EC document dated 11-12-2002 No. 15524/1/02).

Note: this Report does not cover complimentary national direct payments, funds for market regulation and other measures allotted from the state budget.

Source: Ministry of Agriculture

In the programming period 2004–2006, RDP measures received the largest share of EAGGF Guarantee Section funding, i. e. LTL 1.7 bn (50%). These measures were funded under the RDP for 2004–2006 the main objective of which is the development of competitive agriculture, diversification and environmental protection.

At the beginning of the programming period the majority of the RDP funding was allotted to the following measures: *Less favoured areas and areas with environmental restrictions* (24%) *and Early retirement of farmers from the commercial agricultural production* (21.2%.)(Table 15, see "Before reallocation"). However, the funds requirement under measures *Less favoured areas and areas with environmental restrictions* and *Compliance with standards* exceeded the amounts allotted to these measures in the RDP for 2004–2006, while funds requirements under other measures were lower than planned.

Observation

Taking account of the popularity of and funds requirement for the RDP measures the Ministry of Agriculture initiated reallocations of funds earmarked for RDP.

After the second funds reallocation among RDP measures (by 31 December 2007), the majority of the funds were allocated to measures *Less favoured areas and areas with environmental restrictions* (29.4%) and *Compliance with standards* (22%) (Table 15).

Table 15. Size of assistance for RDP measures in programming period 2004–2006 (EU and co-financing) as of 31 December 2007, LTL m and %

Measures in the RDP for 2004–2006	Size of assistance					
	Before reallocation		Reallocation I		Reallocation II	
	LTL m	%	LTL m	%	LTL m	%
1. Early retirement of farmers from the commercial agricultural production	447.7	**21.2**	264.3	12.5	264.3	12.5
2. Less favoured areas and areas with environmental restrictions	507.2	**24.0**	621.3	**29.4**	621.3	**29.4**
3. Agro-environment	214.8	10.1	192.0	9.1	235.1	11.1
4. Afforestation of agricultural land	92.5	4.4	45.0	2.1	45.0	2.1
5. Support for semi-subsistent farms under restructuring	105,3	5,0	34,4	1.6	34.4	1.6
6. Compliance with standards	242.3	11.5	507.7	**24.0**	464.6	**22.0**
7. Technical assistance	20.5	1.0	20.5	1.0	20.4	1.0
8. Complimentary national direct payments	415.9	19.7	415.9	19.7	415.9	19.7
9. Other (SAPARD surplus)	66.5	3.1	11.6	0.5	11.6	0.5
Total:	**2,112.7**	**100**	**2,112.7**	**100**	**2,112.7**	**100**

Source: Rural Development Plan for 2004–2006; Ministry of Agriculture

Utilisation of assistance from the Guarantee Section of the European Agricultural Guidance and Guarantee Fund

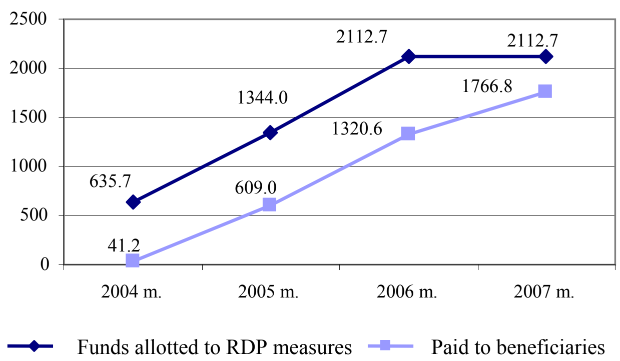
Observation

Information on the utilisation of the EAGGF Guarantee Section and co-financing funds is provided in the website of the National Paying Agency responsible for the administration of relevant measures. In our opinion, the provision of such information in MA's website as well would increase awareness of both the public and stakeholders of the utilisation of assistance allotted to Lithuania for direct payments and market regulation and RDP measures. The public should also be informed about amounts paid to Lithuania by the Commission.

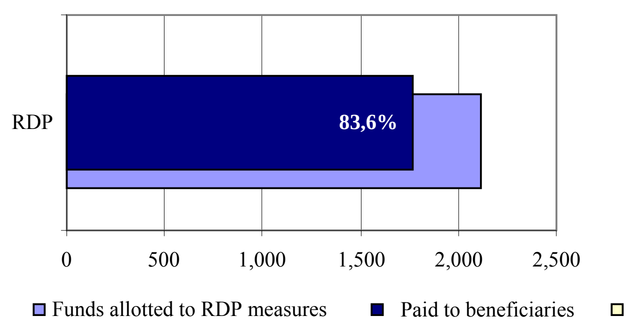
RDP measures are implemented during periods longer than one year and the assistance allotted for the programming period 2004–2006 must be utilised by 31 December 2008. **As of 31 December 2007, LTL 1,766.8 m (83.6%) of the EU and co-financing funds intended for RDP measures were paid** (Figure 20, Table 16).

Fig. 20. EU and co-financing funds allotted and paid to RDP measures in 2004–2007 (increasing order) as of 31 December 2007, LTL m and %

Assistance paid to RDP measures by years, LTL m



Assistance paid to RDP measures, %



Source: Ministry of Agriculture

An analysis of individual RDP measures shows that the majority of funds (approx. 91-98%) were paid to the measures *Less favoured areas and areas with environmental restrictions* (98.4%), *Early retirement of farmers from the commercial agricultural production* (92.4%), and *Agro-Environment* (91.7%). However, some measures received less than 50% of the allotted assistance as of 31 December 2007: *Afforestation of agricultural land* (37.8%) and *Compliance with standards* (48.7%) (Table 16).

Table 16. Utilisation of funds allotted to RDP measures in 2004–2006 (EU and co-financing funds) as of 31 December 2007, LTL m and %

Measures in RDP for 2004–2006	Amount of assistance		Paid		Utilisation rate, %	
	Total	EU	Total	EU	Total	EU
1.Early retirement of farmers from the commercial agricultural production	264.3	211.4	244.3	195.4	92.4	92.4
2. Less favoured areas and areas with environmental restrictions	621.3	497.1	611.6	489.3	98.4	98.4
3. Agro-environment	235.1	188.1	215.5	172.4	91.7	91.7
4. Afforestation of agricultural land	45.0	36.0	17.0	13.6	**37.8**	**37.8**
5. Support for semi-subsistent farms under restructuring	34.4	27.5	17.8	14.2	**51.7**	**51.7**
6. Compliance with standards	464.6	371.7	226.2	181.0	**48.7**	**48.7**
7. Technical assistance	20.4	16.4	13.5	10.8	**66.2**	**65.9**
8. Complimentary national direct payments	415.9	332.7	412.7	330.3	99.2	99.3
9. Other (SAPARD surplus)	11.6	9.3	8.2	6.2	70.7	66.7
Total	**2,112.7**	**1,690.2**	**1,766.8**	**1,413.2**	**83.6**	**83.6**

Source: Ministry of Agriculture

According to MA, low rates of utilisation of funds for certain RDP measures can be explained by the lack of popularity of such measures among applicants. The estimation of the funds requirements for the RDP measures for 2004–2006 was inaccurate. Therefore, further reallocations of funds among the measures are planned in 2008 in order to utilise the funds allotted for RDP in full.

Direct payments amounting to LTL 1,097.3 m were paid to beneficiaries as of 31 December 2007, or 98.8% of EU funds earmarked for direct payments. LTL 413.4 m of EU assistance were paid for market regulation measures (intervention measures and export refunds) in 2004–2006. This accounts for **71% of the EU funds earmarked for these measures for 2004–2006** (Table 17).

Table 17. EU assistance allotted and paid for direct payments and market regulation measures in 2004–2006 as of 31 December 2007

	Assistance, LTL m	Paid, LTL m	Utilisation rate, %
Direct payments:			
for 2004	283.4	282.4	99.6
for 2005	360.3	353.5	98.1
For 2006	466.4	461.3	98.9
Total	**1,110.1**	**1,097.3**	**98.8**
Market regulation measures*			
for 2004	88.4	6.3	7.1
for 2005	218.1	166.3	76.2
for 2006	276.0	240.8	87.2
Total	**582.5**	**413.4**	**71.0**

*The amount allotted to Lithuania under the Copenhagen proposal is presented as market regulation measures (EC document dated 11-12-2002 No. 15524/1/02). The EU funds allotted for market regulations measures were paid depending on actual need.

Source: Ministry of Agriculture

According to explanations provided by MA, the actual funding requirement for the said market regulation measures was lower, therefore, the rate of funds utilisation was lower[50]:

- the assistance allotted for intervention measures was not used in full due to reduced intervention purchases and expenses for private storage as well as due to reduced number of applications from entities;
- the amount of export refunds paid was lower than expected due to prolonged checking of certain supporting export documents, failure to provide documents by certain exporters, and reduced number of applications for export refunds.

LTL 1,766.8 m (83.6%) of the EU and co-financing funds allotted to RDP measures were paid as of 31 December 2007. Although the rate of utilisation of funds for the RDP for 2004–2006 is quite high, less than half of the allotted assistance amount was paid under certain RDP measures (Afforestation of agricultural land and Compliance with standards) as of 31 December 2007. *The Ministry of Agriculture has noted that applications have been collected for the said measures and payments will be made in 2008, furthermore, reallocation of the RDP funding will be made in 2008, with the funds transferred from less popular measures to the measures that are more popular.*

As of 31 December 2007, LTL 1,097.3 m (98.8%) of EU funds intended for direct payments were paid to beneficiaries. In 2004–2006, LTL 413.4 m were paid for market regulation measures (71% of total EU assistance allotted for 2004–2006).

Results of audits of the Guarantee Section of the European Agricultural Guidance and Guarantee Fund

▸ Mandatory audits carried out by NAO

The main observations of the **Certification audit of the EAGGF Guarantee Section expenditure accounts for 2004**(public audit report dated 31-01-2005 No. 1070-5-8) were related to internal control and accreditation criteria, i. e.:

- the mechanism of transposition of the EU legal acts to the operating procedures was not functioning at the National Paying Agency;
- the NPA failed to take actions necessary to control the performance of functions delegated to other institutions;
- management of information at NPA was inefficient.

Out of 80 recommendations made by the auditors, all were implemented in full or in part as of 4 September 2007. Further implementation of the recommendations will be assessed by the appointed new certifying authority.

The main observations of the **Certification audit of the EAGGF Guarantee Section expenditure accounts for 2005** (public audit report dated 03-02-2006 No. 1070-1-1):

- cross-checking controls for the rejection of ineligible blocks in the administration IS have not been implemented for the purposes of administration of support for area of agricultural land;
- in the evaluation and payment for applications under the single area payments scheme, no targeted controls were applied in order to ensure that payments are made only for area of agricultural land of good agrarian quality;
- certain provisions of the RDP, the administration rules approved by orders of MA and the NPA written procedures and calculation algorithms prepared on the basis of the said documents are not in line with provisions of certain Commission Regulations (as a result of which, the definition "crop group" was applied incorrectly etc.);

[50] Source: annexes to explanatory notes to the statements of execution of the State Budget of the Republic of Lithuania for 2005–2007 (reasons for failure to use the appropriations from the EAGGF Guarantee Section Programme provided by the Ministry of Agriculture).

- in the administration of payment applications under the RDP measure "Agro-environment", all the mandatory checks were carried out in winter, i. e. were ineffective;

- the NPA paid assistance funds under the RDP measure "Early retirement from commercial agricultural production" also for the period when the applicants had not retired from agricultural productions and had not committed themselves to retire;

- the procedures of administration of the RDP and the single area payments scheme due not ensure proper implementation of the EU Regulation concerning recovery of excess payments and calculation of relevant penalty. The NPA has no suitable controls in place to calculate the penalty correctly and in due time.

Out of 75 recommendations made by the auditors, all were implemented in full or in part as of 4 September 2007. Further implementation of the recommendations will be assessed by the appointed new certifying authority.

The **Certification audit of the EAGGF Guarantee Section expenditure accounts for 2006** (public audit report dated 07-02-2007 No. FA-1070-1-1) has established that the National Paying Agency (in certain cases – due to insufficient action by MA):

- has failed to ensure that a beneficiary having presented an incorrect declaration through gross negligence would be deleted from all the RDP measures;

- the rules for the administration of RDP measures "Agro-environment" and "Less favoured areas and areas with environmental restrictions" did not define the definition "crop group", therefore, the NPA, without legal grounds and in violation of the EU legal acts, incorrectly imposed sanctions of LTL 518,458 under the measure "Agro-environment" and failed to impose relevant sanctions of undefined scope;

- in the administration of the measure "Agro-environment", the NPA permitted the beneficiaries to modify data in their applications, annual requests and payment applications after they were informed of the irregularities identified, without imposing relevant sanctions;

- in the administration of payment applications under measure "Agro-environment" in 2005, the NPA conducted all the mandatory checks in the period from November 2005 till May 2006 (according to the EU legal acts, on-the-spot checks become ineffective after the farmer starts preparing the land for new crops);

- in the administration of RDP measures, paid incorrect amounts to applicants where the estimated pension was different from the pension actually received during the year;

- during the verification made by the NPA, the particulars in the Cattle Register were possibly different from actual situation, therefore, proper administrative checks as provided in the EU legal acts were not ensured;

- the internal control system of the RDP measure "Technical assistance" did not fully meet the accreditation criteria laid down in the EU regulations.

154 recommendations were made by the auditors. Implementation of the recommendations will be assessed by the appointed new certifying authority.

It should be noted that certain recommendations made during the 2005 certification audit and related to important audit observations remained not implemented and the same weaknesses related to ineffective checks (RDP measure "Agro-environment") and lack of definition of "crop group" (RDP measures "Agro-environment" and "Less favoured areas") were also detected during the 2006 certification audit.

► Assessment of legality and regularity of underlying transactions in the Member States by the European Court of Auditors in 2006 (common agricultural policy)

The European Court of Auditors has established that the *overall level of errors in the underlying transactions has lowered considerably in the Member States*. However, it still remains slightly over the materiality level. In rural development, the rate of errors in agro-environment is often high as it is difficult for the farmers to understand and fulfil the eligibility requirements, which are often complicated. It should be noted that the reasons for EAGGF Guarantee Section irregularities in Lithuania are also often related to failure to comply with the requirements of good agrarian condition (see item 2.2.6). Therefore, the institutions responsible for the administration of assistance for CAP measures in Lithuania, must take account of this general observation by ECA and the trends of EAGGF Guarantee Section irregularities in Lithuania in order to reduce the risk of the errors.

The main observations following the mandatory EAGGF Guarantee Section audits in Lithuania conducted by the NAO in 2005–2007 (concerning expenditure accounts for 2004–2006) were related to the absent controls or controls requiring improvement, incompliance of certain administration rules and procedures with the provisions of Commission Regulations or updating thereof, inefficiency of some checks related to the administration of RDP measures, incompliance of internal controls systems with certain accreditation criteria, and ensuring of data reliability.

2.2.5. Assessment of the execution of the EU budget by the European Court of Auditors and the European Commission[51]

The European Court of Auditors has noted[52] that in 2006 the amount of outstanding budgetary commitments (unused commitments), was equal to LTL 454.6 bn (EUR 131,6 bn) and has increased by 10.6% compared to 2005. A large part of unused commitments of the **Member States** is related to the structural funds. According to ECA, the CF also raises concerns about problems encountered by some new Member States in the utilisation of assistance. The ECA has noted that experience shows that spending naturally tails off towards closure. Therefore, it recommended to further increase the execution rate in the area of SF in order to comply with the deadline for closing of current period and to focus attention on insufficient utilisation of the CF assistance. In ECA's opinion, the beginning of the new programming period will aggravate the situation.

The European Commission has indicated[53] that in the period from 1 May 2004 till 1 September 2007 the **new EU Member States** (including Lithuania) used 45%, i. e. less than one half of the structural assistance (ES SF and CF) allotted to them in the EU budget (Table 18). According to the Commission, this figure is not as good as the rate of utilisation of assistance for CAP measures. The old EU Member States lost LTL 2.6 bn (EUR 753 m) in 2003–2006 as a result of the imposition of sanctions related to the N+2 rule (for more details see item 2.2.2.).

Table 18. Rate of utilisation of structural assistance (EU SF and CF) in the new EU Member States as of 1 September 2007, %

New Member States	EU budget utilisation rate, %
EU-10	**45**
Malta	64
Hungary	51
Slovenia	51
Estonia	49
Slovakia	47
Lithuania	**45**
Poland	44
Czech Republic	40
Cyprus	40
Latvia	39

Source: Commission report on the EU budget for 2006

[51] Note: we note that in Item 2.2.5. „Assessment of the EU budget execution by the European Court of Auditors and the Commission" contains the Commission's evaluation of the utilisation of structural assistance (EU SF and CF) and EAGGF GS funds in Lithuania based on actual payments to Lithuania made by the Commission. The assessment of the assistance utilisation presented in Items 2.2.2. „EU Structural Funds", 2.2.3. „Cohesion Fund" and 2.2.4. „European Agricultural Guidance and Guarantee Fund's Guarantee Section" is based: in case of EU SF – on expenditure declarable to the Commission (eligible expenditure that was paid at the projects' requests and recognised as declarable to the Commission), in case of CF – payments to contractors, in case of EAGGF GS – funds paid to beneficiaries. Therefore, the rate of utilisation of the EU assistance (SF and CF) (%) differs in the Commission's evaluation from the utilisation rate (%) calculated by the Lithuanian institutions administering assistance.
[52] Source: ECA annual report for financial year 2006.
[53] Source: Commission reports on the EU budget for 2006.

According to the European Commission, **Lithuania** is using the assistance for CAP measures funded from EAGGF Guarantee Section (in particular direct payments) most successfully.

As of 1 September 2007 Lithuania has utilised LTL 2,348 m (EUR 680 m) *of structural assistance (EU SF and CF)*, which accounts for 45% of the structural assistance commitments to Lithuania provided for in the EU budget in the programming period 2004–2006. As of 15 September 2007, the rate of utilisation of EAGGF Guidance Section was the highest among SF utilisation rates in Lithuania (74%), while the rate of ESF utilisation was the lowest (41%). An analysis of utilisation of SF assistance by activity areas as of 1 September 2007 shows that the highest funds utilisation rate is in agriculture (67%), while the lowest – in environmental protection (28%) (Table 19).

Table 19. Rate of utilisation of structural assistance (EU SF and CF) in Lithuania, by funds and activities

Rate of utilisation of structural assistance in Lithuania, by funds as of 15 September 2007, %	
Fund	Utilisation rate, %
EAGGF Guidance Section	74
FIFG	68
ERDF	56
Cohesion Fund	42
ESF	41
Rate of utilisation of structural assistance in Lithuania, by activities as of 1 September 2007, %	
Area	Utilisation rate, %
Agriculture	67
Transport	58
Fisheries	57
Healthcare	56
Information society	38
Education and science	37
Support for business	36
Employment promotion	33
Environment	28

Source: Commission report on the EU budget for 2006

2.2.6. Irregularities in the utilisation of EU financial assistance

In the EU Regulations[54] an irregularity is defined as *any infringement of a provision of Community law* resulting from an act or omission by an economic operator which has, or would have, the effect of prejudicing the general budget of the Communities by charging an unjustified item of expenditure to the Community budget. In legal acts of the Republic of Lithuania[55], an irregularity is defined as *an irregularity of provisions of Lithuanian and/or Community legal acts* by actions or omissions, which have inflicted or could inflict losses upon the state budget and/or Community budget.

Each Member State must provide information on the irregularities detected to the European Anti-Fraud Office (OLAF). According to Lithuania‘s Financial Crimes Investigation Service, no reports were sent to OLAF in 2004. Irregularities the value of which amounted to or exceeded EUR 4,000 were reported to OLAF in 2005 and irregularities of the EU SF and CF assistance the value of which amounted to or exceeded EUR 10,000 – in 2006 and 2007. The EUR 10,000 threshold was started to be applied to the EAGGF Guarantee Section irregularities reported to OLAF in 2007. Table 20 shows the numbers of irregularities reported to OLAF by the Financial Crimes Investigation Service in 2005–2007.

Table 20. Number of irregularities in Lithuania reported to OLAF in 2005–2007

EU fund	2004	2005	2006	2007	Total
Structural funds	**0**	**2** (↑ 4,000 EUR)	**38** (↑10,000 EUR)	**10** (↑ 10,000 EUR)	**50**
Cohesion Fund	**0**	**3** (↑ 4,000 EUR)	**1** (↑10,000 EUR)	**4** (↑ 10,000 EUR)	**8**
EAGGF Guarantee S.	**0**	**32** (↑ 4,000 EUR)	**29** (↑ 4,000 EUR)	**11** (↑ 10,000 EUR)	**72**
Total	**0**	**37**	**68**	**25**	**130**

Source: Financial Crimes Investigation Service

[54] Source: Commission Regulation of 12-12-2005 No. 2035/2005 amending Regulation (EC) No 1681/94 concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the structural policies and the organisation of an information system in this field; Commission Regulation of 23-12-2005 No. 2168/2005 amending Regulation (EC) No 1831/94 concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the Cohesion Fund and the organisation of an information system in this field.

[55] Source: order by the Minister of Finance No. 1K-307 of 17-10-2005 „Concerning approval of the rules for the establishment and elimination of violations in the use of the EU financial assistance and establishing restrictions on obtained EU assistance“.

Table 20 shows that as of 31 December 2007, 130 irregularities have been reported to OLAF. The majority of irregularities, the value of which exceeds the set limit, were committed in connection with the use of EAGGF Guarantee Section assistance (72 irregularities), followed by the EU SF (50 irregularities). An evaluation of the dynamics of irregularities must take account of the irregularity value threshold set to the specific EU fund for specific year. According to the Financial Crimes Investigation Service, the number of EU SF and EAGGF Guarantee Section irregularities has decreased in 2007 compared to 2006, while that of CF-related irregularities has increased.

Table 21. Number of irregularities reported to OLAF by the Member States in 2004–2006

	EAGGF Guarantee S	Structural Funds	Cohesion Fund	Total
EU-25	**9,842** *100%*	**9,406** *100%*	**732** *100%*	**19,980** *100%*
EU-10	**256** *2.61%*	**472** *4.89%*	**43** *5.87%*	**771** *3.80%*
Lithuania	**61** *0.63%*	**40** *0.29%*	**4** *0.55%*	**105** *0.47%*

Source: OLAF and Financial Crimes Investigation Service

Irregularities related to the utilisation of EAGGF Guarantee Section assistance are most frequent both in Lithuania and in the Member States in general (Table 21).

The data on most frequent and recurring irregularities in Lithuania are shown in Table 22.

Table 22. Most frequent and recurring irregularities

EU SF	**ERDF:**	▪ Incorrect information in payment applications: expenditure not supported by documents or ineligible expenditure declared, errors; ▪ Inappropriate public procurement procedures, various violations of public procurement ▪ In some cases the works performed or equipment procured did not conform to the final project objectives and contractual obligations; contracts not fully completed.
	ESF:	▪ Ineligible expenditure declared, part of them not directly related to projects ▪ Violations of Lithuanian legal acts; ▪ Forgery of documents
	EAGGF Guidance Section:	▪ Late payment applications or failure to submit them; ▪ Inappropriate initial account
Cohesion Fund:		▪ Inclusion of ineligible expenditure into invoices and payment fort hem; ▪ Violations of Lithuanian legal acts and contractual provisions by project promoters; ▪ Technical errors in the accounting documents
EAGGF Guarantee Section:		▪ Overdeclaration (increased area) or double declaration; ▪ Failure to comply with the good agrarian condition requirement.

▸ Mandatory audits carried out by NAO

The NAO carried out audits of evaluation of irregularities administration systems of the EU Structural and Cohesion funds developed in the Republic of Lithuania (public audit report dated 14-02-2006 No. 1070-7-3 and public audit report dated 10-04-2006 No. 1070-8-5). It should be noted that the same weaknesses are characteristic of the irregularities administration systems of these funds. The audits have established that *the irregularities administration systems of EU SF and CF are compliant with the set requirement, however:*

- legal acts related to the administration of irregularities, drafted and approved by the managing authorities, as well as explanations provided were not sufficient to ensure uniform and clear understanding and application of EU regulations;
- no irregularities were recorded in the audited period but there is a risk that some irregularities could have been missed, in addition, the Commission could have been furnished with inaccurate information on irregularities;
- irregularities detecting and reporting procedures were not sufficient;
- the systems of collection of information and reporting on irregularities in place were not sufficient.

ES SF: out of 16 recommendations made by the auditors, 56% were implemented in full and 13% in part as of 31 December 2007; the term of implementation has not expired for 25% of recommendations. .

CF out of 22 recommendations made by the auditors, 36% were implemented in full and 9% in part as of 31 December 2007.

130 irregularities committed in 2005–2007 were reported to OLAF as of 31 December 2007. Most of the reports pertain to irregularities in the utilisation of the assistance from the European Agricultural Guidance and Guarantee Fund Guarantee Section (72 irregularities in all).

3. Management of the EU Financial Assistance Allotted to Lithuania in the Programming Period 2007–2013

The third section of the Report presents a brief overview of changes in the new programming period 2007–2013 and of the EU assistance management and control systems in place in Lithuania. A comparison of the EU structural assistance and the assistance to agriculture, rural development and fisheries in the programming periods 2004–2006 and 2007–2013 is made.

3.1. EU Structural Assistance

The main purpose of the cohesion policy and the task of the policy measures in 2007–2013 is to promote growth and employment in all the regions of the EU. In the new programming period, the cohesion policy objectives were reallocated and changes in the financing instruments were made (Table 23).

Table 23. Comparison of structure of the cohesion policy in programming periods 2000–2006 and 2007–2013

2000–2006		2007–2013	
Objectives, Community initiatives, Cohesion Fund	**Financing instruments**	**Objectives**	**Financing instruments**
Objective 1	*ERDF, ESF, EAGGF Guidance and Guarantee Sections , FIFG*	**Convergence**	*ERDF, ESF, Cohesion Fund*
Cohesion Fund	*Cohesion Fund*		
Objective 2	*ERDF, ESF*	**Regional competitiveness and employment**	*ERDF, ESF*
Objective 3	*ESF*		
INTERREG	*ERDF*	**Cooperation of European territories**	*ERDF*
URBAN	*ERDF*		
EQUAL	*ESF*		
LEADER+	*EAGGF Guidance Section*		
Rural development **Restructuring of fisheries sector**	*EAGGF Guarantee Section FIFG*		
9 objectives	**6 instruments**	**3 objectives**	**3 instruments**

Source: Cohesion policy 2007–2013. Commentaries and official texts. European Commission, 2007

Table 23 shows that in 2007–2013 the CF ceases to implement independent activities and is engaged in the funding of measures under the convergence objective jointly with the ERDF and ESF. The same programming and management rules apply to the three funds in the new programming period. LEADER+ and EAGGF have been replaced by the European Agricultural Fund for Rural Development (EAFRD), while FIFG has become the European Fisheries Fund (EFF). EAFRD and EFF no longer form part of the cohesion policy.

The EU structural policy management and control system has changed in the programming period 2007–2013 compared to 2000–2006. Some specific features of the EU structural assistance management in the programming period 2007–2013[56]:

[56] Source: DG of Regional Policy, European Commission (http://ec.europa.eu/regional_policy/policy/manage/index_lt.htm)

- *Management and control system.* Three key authorities must be appointed for each operational programme: the managing, certifying and audit authorities.

- *Eligibility of expenditure.* For expenditure to become eligible, it must be incurred between 1 January 2007 and 31 December 2015. Rules are established at national level except where the specific rules of the fund state otherwise. This is different from the 2000–2006 period where the rules were set at Community level.

- *Automatic decommitment.* The European Commission automatically cancels those budgetary commitments related to the operational programme under which no payments were made or no payment application was submitted by the end of the second year following the year of the budgetary commitment (N+2 rule). For EU-12 (including Lithuania), Greece and Portugal the deadline is set for the end of the third year (n+3) between 2007 and 2010, under their operational programmes

EU structural assistance in Lithuania. The EU structural assistance allotted to Lithuania in the programming period 2007–2013 amounts to over LTL **23 bn** (Table 24). The assistance has been granted under two cohesion policy objectives and is paid from the ESF, ERDF and CF. For the programming period 2004–2006, approx. LTL 6 bn of the EU SF and CH assistance was allotted to Lithuania, i. e. 4 times less than in the new programming period.

Table 24. EU structural assistance to Lithuania in 2007–2013 (EU funds), LTL m

Commitments	2004–2006	2007–2013		Change	
	annual average	annual average	for the period	annual average	%
1. Structural Funds	1,030*	2,205	15,435	1,175	114
2. Cohesion Fund	951	1,137	7,959	186	20
Total	**1,981**	**3,342**	**23,394**	**1,361**	**69**

* Excluding funding of Community initiatives (EQUAL, INTERREG)

Source: Ministry of Finance

The cohesion policy areas supported in Lithuania have been established in the strategic and programming documents agreed with the European Commission: the Strategy for the Utilisation of the European Union's Structural Assistance in Lithuania in 2007–2013 (approved by the Commission on 28 April 2007) and the four operational programmes (approved by the Commission in July – December 2007):

- *Human resources development operational programme* is aimed at attracting and maintaining people in the labour market, promoting active lifelong learning, developing labour force of the highest qualifications and improving public administration (LTL 3.2 bn or 13.8% of the EU funds allotted are funded by ESF);

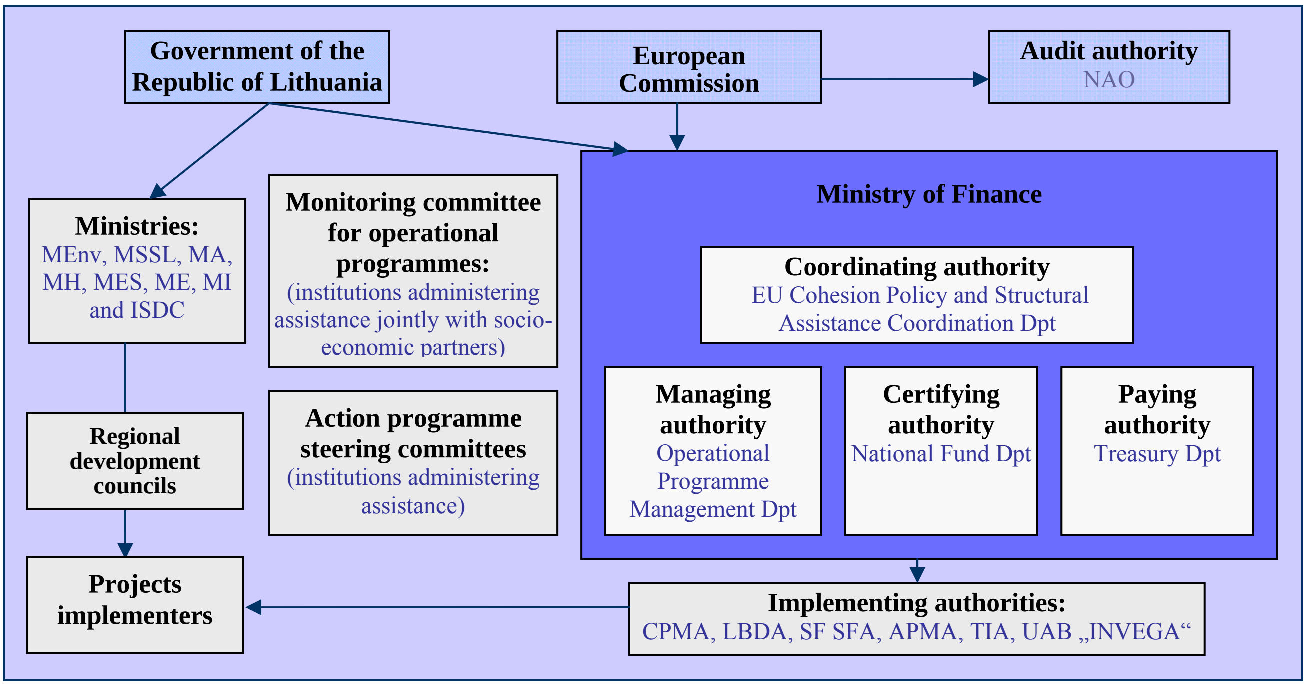
- *Economic growth operational programme* is aimed at increasing the share of high value added business in the Lithuanian economy, creating favourable environment for small and medium-size business and innovations, and making economic infrastructure more effective (LTL 10.7 bn or 45.7% of the EU funds allotted are funded by ERDF and CF);

- *Cohesion promotion operational programme* has four key priorities: local and urban development, preservation of cultural heritage and nature and adaptation to tourism development; quality and accessibility of public services; health, education and social infrastructure; environment and sustainable development and technical assistance *(*LTL 9.2 bn or 39.1% of the EU funds allotted are funded by ERDF and CF);

- *Technical assistance operational programme* is aimed at the administration of the thematic action programmes and complements them *(LTL 0.3 bn or 1.4% of the EU funds allotted).*

The responsible authorities have been identified in the Lithuanian legal acts governing the administration of the EU structural assistance in 2007–2013 (Figure 21). It should be noted that the Seimas has approved, by its resolution[57], the NAO as the institution which will perform the functions of the audit authority in Lithuania in the programming period 2007–2013.

Fig. 21. Lithuanian institutions responsible for the management of EU structural assistance in 2007–2013



Source: Lithuanian legal acts

3.2. European Funds for Agriculture, Rural Development and Fisheries

Since 2007, a provision that CAP is financed from two new funds – the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD). The EAGF is intended for funding for direct payments to farmers, market regulation measures and other measures, while the EAFRD – for funding rural development measures. As it has already been mentioned, the EFF has become independent and no longer forms part of the cohesion policy (Table 25).

[57] Resolution of the Seimas of the Republic of Lithuania of 01-07-2003 No.. IX-1667 „Concerning assignment to the National Audit Office of the Republic of Lithuania to carry out audits of the EU structural asistance received“ (edition of resolution of the Seimas of 11-10-2007 No.X-1295).

Table 25. Comparison of agricultural, rural development and fisheries financing instruments in 2000–2006 and 2007–2013

2000–2006		2007–2013	
Area	**Financing instruments**	**Area**	**Financing instruments**
Regulation of agricultural markets and support for farmers **Rural development**	*EAGGF Guarantee Section*	**Regulation of agricultural markets and support for farmers**	*EAGF*
Rural development	*EAGGF Guidance Section (structural fund)*	**Rural development**	*EAFRD*
LEADER+	*EAGGF Guidance Section (structural fund)*		
Restructuring of fisheries sector	*FIFG (structural fund)*	**Development of fisheries sector**	*EFF*

Source: EU regulations

One of the key specific features of the CAP management is related to the direct payments system introduced after the CAP reform, with the assistance no longer linked to production volumes. At the core of this change is the Single Payment Scheme (SPS), the introduction of which started in 2005. As applied SPS is a complex system as Member States can opt between several different models, basing the payments to farmers on either historical data for aid and area, or a flat rate-area value of the first year of application. The EU-10 (including Lithuania and excluding Malta and Slovenia) apply a transitional scheme: the Single Area Payment Scheme (SAPS). Under the SAPS a standard amount is paid per hectare, with no reference to historical payments. These countries will in due course adopt the SPS[58].

Assistance from the EU agricultural, rural development and fisheries funds in Lithuania. The EU assistance for agriculture, rural development and fisheries to Lithuania in the programming period 2007–2013 amounts to over LTL **12 bn** (Table 26).

Table 26. EU assistance to Lithuanian agriculture, rural development and fisheries in 2007–2013 (EU funds), LTL m

Commitments	2004–2006	2007–2013		Change	
	annual average	annual average	for the period	annual average	%
1. CAP	516	907	6,350	391	76
*1.1. Direct payments**	*322*	*802*	*5,615*	*480*	*149*
*1.2. Market regulation measures***	*194*	*105*	*735*	*-89*	*-46*
2. Rural development	705***	860	6,020	155	22
3. Fisheries	14	27	189	13	93
Total	**1,235**	**1,794**	**12,559**	**559**	**45**

* The amount allotted for direct payments for 2004–2006 covers a two-year period as the financial cover for 2004 direct payments is included in the state budget for 2005, while the cover for 2005 – in the 2006 budget.
** The EU funding allotted for market regulation measures is not specified by Member States but are paid depending on actual need, therefore, the EU assistance to Lithuania in 2007–2013 will depend on actual needs.
*** Including rural development measures funded by the EU SF.

Source: Ministry of Agriculture

Direct payments and market regulation measures. The application of SAPS was started in Lithuania in 2007; it should be replaced with SPS in 2010. Apart from direct payments, implementation of the market regulation measures (the quota system, export refunds, intervention purchases etc.) is continued in the new period.

[58] Source: Information note on the annual reports for 2006, ECA.

The following institutions are involved in the administration of the EAGF assistance in Lithuania: *the competent authority* (Ministry of Agriculture), *the paying authority* (National Paying Agency), *the certifying authority* (Internal Audit Department of the Ministry of Agriculture; certification is carried out by an externally hired independent entity).

Rural development. The rural development areas supported in Lithuania have been established in the strategic and programming documents agreed with the Commission: the National Rural Development Strategy for 2007–2013 and the Lithuanian Rural Development Programme for 2007–2013 (approved by the Commission on 19 October 2007).

The following institutions are involved in the administration of the EAGF assistance for the funding of the 2007–2013 rural development measures: *the managing and competent authority* (Ministry of Agriculture), *the paying authority* (National Paying Agency), and *the certifying authority* (Internal Audit Department of the Ministry of Agriculture, with the certification carried out by an externally hired independent entity). The monitoring is conducted by the *Monitoring Committee*.

Development of fisheries sector. The fisheries sector areas supported in Lithuania have been established in the strategic and programming documents agreed with the Commission: the National Strategic Plan for the Fisheries Sector in Lithuania for 2007–2013 and the Action Programme on the Fisheries Sector in Lithuania for 2007–2013 (approved by the Commission on 17 December 2007).

The following institutions are involved in the administration of the EFF assistance for the fisheries sector for 2007–2013: *the managing authority* (Ministry of Agriculture), *the intermediate authorities* (Fisheries Department and National Paying Agency), *the certifying authority* (National Paying Agency), and *the audit authority* (Internal Audit Department of the Ministry of Agriculture). The monitoring is conducted by the *Monitoring Committee*.

Summarised Conclusions and Proposals

Conclusions

On the information about the management and utilisation of total EU financial assistance

1. The state budget of the Republic of Lithuania does not reflect all the EU financial assistance received and used. Part of the assistance is transferred from the EU budget directly to the entities implementing or administering certain measures, i.e. is not reallocated through the state budget (Section 2). There is no central provision of summary information on the management and use of the total EU financial assistance allotted to Lithuania (including the funds allocated through channels other than the state budget) (Section 2).

On the EU financial assistance management and control systems in place in Lithuania

2. The management and control systems for the EU Structural Funds, the Cohesion Fund, and the European Agricultural Guidance and Guarantee Fund's Guarantee Section established in Lithuania in programming period 2004–2006 were substantially in line with the set requirements, however, certain weaknesses have been established and recommendations for elimination thereof have been made. In terms of the *EU Structural Funds*, the main weaknesses were related to the lack of clarity in the project evaluation and selection procedures; insufficient capacities of the implementing and intermediate authorities to establish errors and to ensure that the declarable to the European Commission expenditure submitted in the reports is eligible and correct; inappropriate conduct of sample checks on operations; and weaknesses in the administration of irregularities (Items 2.1.1., 2.2.2. and 2.2.6.). The main observations concerning the *Cohesion Fund* are related to various weaknesses in the management and control systems; inappropriate use of funds in some cases; incompliance with the provisions of the Law on Procurement; and weaknesses in the administration of irregularities (Items 2.1.2., 2.2.3. and 2.2.6). In terms of the *European Agricultural Guidance and Guarantee Fund's Guarantee Section*, the main observation were related to lacking or insufficient internal controls; non-compliance of some administration rules and procedures with the provisions of Commission Regulations or updating thereof; inefficient checks of some RDP measures; incompliance of the internal control system with certain accreditation criteria; ensuring data reliability (Items 2.1.3., 2.2.4).

On the planning of the EU financial assistance in the state budget

3. The planning of appropriations for the special EU programmes funded by EU SF and CF (ISPA) in the state budget for 2004–2007 was not accurate enough (Item 2.2.1.).

On the utilisation of the EU Structural Funds assistance

4. As of 31 December 2007, LTL 2,709 m (65%) of total funding allotted for the SPD implementation was utilised, including EU funds LTL 1,908 m (62%). 38% of the funding for SPD must be utilised by 31 December 2008, i.e. during one year. In our opinion, due to the accumulation of a large share of unused funds at the end of the programming period, there is a risk that part of the funds will not be used in due time. This may also affect the due utilisation of assistance for the new programming period 2007–2013 (Item 2.2.2.).

5. The preparation of plans for the conclusion of contracts and funds utilisation, initiated by the Ministry of Finance, is a good administration practice, however, in our opinion, without the

regulation of the drawing up, approval, adjustment and monitoring of implementation of the plans for the conclusion of contracts and for the use of funds under the measures of SPD for 2004–2006 and the payments to contractors under the CF (ISPA) projects, there remains a risk that such monitoring will be ineffective as a means of control (Item 2.2.2.).

On the use of assistance from Cohesion Fund

6. As of 31 December 2007, the need for additional funding for the CF (ISPA) projects amounted to LTL 1,132.2. As the value of the signed contracts for the environmental sector accounted for 61.8% as of 31 December 2007, taking account of inflation processes, it is probable that the need for additional funding for environmental projects will increase. The increased value of the CF (ISPA) projects must be paid by the national funds. If no sufficient national funds are allotted, certain components (goods, services and works) of the projects approved by the Commission will have to be abandoned. Therefore, there is a risk that not all the set projects objectives will be attained (Item 2.2.3).

7. LTL 2,425.5 m (60.5%) of the funding approved by the Commission for the CF (ISPA) projects were used as of 31 December 2007, including LTL 1,610.3 m (56.5%) EU funds. As the unused share of EU funds was approx. 43.5% and the share of the value of environmental projects not signed was 38.2% as of 31 December 2007, there is a risk that part of the funds allotted for the CF (ISPA) projects may remain unused by the set deadline (Item 2.2.3).

8. Part of important information related to the implementation of CF-funded projects and utilisation of funds is not publicly available. In our opinion, the website on the EU structural assistance managed by the Ministry of Finance (www.esparama.lt) is not detailed enough, therefore, its users may form an incorrect view of the implementation of the projects (Item 2.2.3).

On utilisation of assistance from the European Agricultural Guidance and Guarantee Fund's Guarantee Section

9. As of 31 December 2007, LTL 1,766.8 m (83.6%) of the EU and co-financing funds allotted for RDP and LTL 1,097.3 m (98.8%) of the EU funds allotted for direct payments were paid. Although the overall rate of utilisation of the funds earmarked for the measures under RDP 2004–2006 is quite high, less than half of the allotted assistance was paid for some RDP measures ("Afforestation of Agricultural Land", "Compliance with Standards") as of 31 December 2007 (Item 2.2.4).

10. The website of the Ministry of Agriculture does not provide detailed information on the utilisation of the EAGGF Guarantee Section and co-financing funds. In our opinion, publishing of such information would increase awareness of the public and stakeholders of the utilisation of assistance allotted to Lithuania for direct payments and market regulation and RDP measures (Item 2.2.4).

Proposals

To the Government of he Republic of Lithuania

1. Organise, on a periodic basis, provision of summarised information on the management and utilisation of total EU financial assistance in Lithuania (including those funds that are not distributed through the state budget) to the public and stakeholders (Conclusion 1).

2. Ensure regulation of the drawing up, approval, adjustment, and monitoring of the implementation of plans for the conclusion of contracts and for the use of funds under the

measures of SPD for 2004–2006 and the payments to contractors under the CF (ISPA) projects (Conclusion 5).

To the Ministry of Finance of the Republic of Lithuania

3. Organise an assessment of justification of the increase in value of the projects funded by CF (ISPA) (Conclusion 6).

4. Publish all the significant information related to the implementation of the CF (ISPA) projects and funds utilisation in the website on EU assistance managed by the Ministry (Conclusion 8).

To the Ministry of Agriculture of the Republic of Lithuania

5. Publish detailed information on the utilisation of assistance allotted to Lithuania for direct payments, market regulation measures and RDP measures in the Ministry's website (Conclusion 10).

Director of Audit Department No. 6	Jolita Korzunienė
Director of Audit Department No. 7	Vilija Stirbienė
Chief Public Auditor, Audit Department No. 6	Natalija Bryžachina

Annexes

Annex 1

List of Abbreviations Used in the Report

CAP – common agricultural policy
Co-fin. – co-financing funds
Council – Council of the European Union
CPMA – Central Project Management Agency
EAFRD –European Agricultural Fund for Rural Development
EAGGF– European Agricultural Guidance and Guarantee Fund
EAGGF GS– European Agricultural Guidance and Guarantee Fund's Guarantee Section
EAGF – European Agricultural Guarantee Fund
EC – European Commission
ECA – European Court of Auditors
EFF – European Fisheries Fund
EPMA – Environmental Projects Management Agency
ERDF – European Regional Development Fund
ESF – European Social Fund
ESFA – Support Foundation European Social Fund Agency
EU – European Union
EU-10 – new EU Member States that have joined in 2004 (Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Poland, Malta, Slovakia, Slovenia and Hungary)
EU-12 – new EU Member States that have joined in 2004 and 2007 (Bulgaria, Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Poland, Malta, Romania, Slovakia, Slovenia and Hungary)
EU-15 – old EU Member States (Ireland, Austria, Belgium, Denmark, Greece, Spain, Italy, United Kingdom, Luxembourg, Netherlands, Portugal, France, Finland, Sweden, Germany)
EU-25 – EU Member States before 2007
FD under MA – Fisheries Department under the Ministry of Agriculture of the Republic of Lithuania
FIFG – Financial Instrument for Fisheries Guidance
IAKS – integrated administration and control system
IS – information system
ISDC – Information Society Development Committee under the Government of the Republic of Lithuania ISPA – instrument for structural policies for pre-accession related to environment and transport
IT – information technologies
LBDA – Lithuanian Business Development Agency
MA – Ministry of Agriculture of the Republic of Lithuania
MC – Ministry of Communications of the Republic of Lithuania
ME – Ministry of Economy of the Republic of Lithuania
MEnv – Ministry of Environment of the Republic of Lithuania
MES – Ministry of Education and Science of the Republic of Lithuania
MF – Ministry of Finance of the Republic of Lithuania
MF EUCPSAD – EU Cohesion Policy and Structural Assistance Coordination Department of the Ministry of Environment of the Republic of Lithuania
MF FCMD – Financial Control Methodology Department of the Ministry of Environment of the Republic of Lithuania
MF NFD – National Fund Department of the Ministry of Environment of the Republic of Lithuania
MH – Ministry of Health Care of the Republic of Lithuania
MSSL – Ministry of Social Security and Labour of the Republic of Lithuania
NPA – National Paying Agency under the Ministry of Environment
OLAF – European Anti-Fraud Office
PHARE – EU assistance programme for restructuring of economies
RDP – Rural Development Plan for 2004–2006
SAI – supreme audit institution
SAPARD – special accession programme for agriculture and rural development
SAPS – single area payment scheme
SF ESFA – Support Foundation European Social Fund Agency
SFMIS – EU SF and EU CF computer information management and monitoring system
SPD – Single Programming Document of Lithuania for 2004–2006
SPS – single payment scheme
TIA – Transport Investment Authority

Annex 2

List of mandatory audits and performance audits related to the EU financial assistance completed by the NAO in 2004–2007 and covered by this Report

Date and No.	Title of audit report	Notes
Audits of EU Structural Funds Audits of management and control systems of the EU SF are interim audits for the mandatory SF audits provided for in the long-term strategy for winding-up audits. The Commission uses the results of the audits of management and control systems completed by NAO for the evaluation and supervision of the efficiency of management of the EU SF assistance. The declaration at the winding-up of an assistance, which will be prepared in 2010, will form the basis for the Commission to transfer the final balance of assistance funds. Apart from these audits, performance audits completed under NAO's annual audit programmes are also listed.		
2005-05-20 No. 1070-7-70	Evaluation of the Management and Control System of the EU Structural Funds assistance established in the Republic of Lithuania	System (compliance) audit. Component of the mandatory winding-up audit to be carried out in 2010 under Commission Regulation No. 438/2001
2005-10-05 No. 1070-3-39	Evaluation of the EU Structural Funds project applications selection system established in the Republic of Lithuania	System (compliance) audit. Component of the mandatory winding-up audit to be carried out in 2010 under Commission Regulation No. 438/2001
2006-02-14 No. 1070-7-3	Evaluation of irregularities administration system of the EU Structural funds developed in the Republic of Lithuania	System (compliance) audit. Component of the mandatory winding-up audit to be carried out in 2010 under Commission Regulation No. 438/2001
2006-07-13 No. IA-9000-2-1	Evaluation of control of the common information system and the EU Structural Funds and Cohesion Fund Management and Monitoring Information System (SFMIS)	IT audit. Audit provided for in the Public Audit Programme of NAO. The results of the audit will also be provided as part of the mandatory winding-up audit to be carried out in 2010 under Commission Regulation No. 438/2001
2006-09-29 No. 2020-6-22	Establishment of the Network of Protected Areas "NATURA 2000" in Lithuania	Performance audit. Audit provided for in the Public Audit Programme of NAO
2007-05-02 No.FA-1070-4P-12	Evaluation of Statements of Expenditure of the EU Structural Funds (SPD Objective 1) of 2004–2006 1st Half	Financial audit. Component of the mandatory winding-up audit to be carried out in 2010 under Commission Regulation No. 438/2001
2007-09-06 No. VA-P-10-5-14	Development of fisheries sector	Performance audit. Audit provided for in the Public Audit Programme of NAO
2007-12-20 No. FA- P7-70-3-57	Evaluation of EU Structural Funds' system of sample checks on operations (R.438/2001 Art.10 – 12)	System (compliance) audit. Component of the mandatory winding-up audit to be carried out in 2010 under Commission Regulation No. 438/2001
Audits of EU Cohesion Fund (ISPA) The Commission uses the results of the winding-up audits of CF (ISPA) projects for the evaluation of the efficiency of the management and control of assistance funds and for the adoption of decision on the transfer of final balance to projects. Apart from these audits, performance audits completed under NAO's annual audit programmes are also listed.		
2004-06-25 No. 1070-2-70	Winding-up audit of ISPA project No 2001/LT/16/P/PA/003 „Preparation by the National Fund and ISPA implementing agencies to apply the procedures of the extended decentralised implementation system (EDIS) covering the deficiency evaluation, preparations for EDIS and compliance assessment phases"	Financial audit. Winding-up audit obligation under the Financial Memorandum and Commission Regulation No.1386/2002

2005-02-11 No. 1070-3-12	Winding-up audit of CF (ISPA) project No. „Development of the Via Baltica Road in the years 2000 – 2003"	Financial audit. Winding-up audit obligation under the Financial Memorandum and Commission Regulation No.1386/2002
2005-06-29 No. 1070-2-38	Winding-up audit of CF (ISPA) project No 2000/LT/16/P/PA/001 „Technical assistance for the development of railway Cretan Corridors IXB, IXD and I"	Financial audit. Winding-up audit obligation under the Financial Memorandum and Commission Regulation No.1386/2002
2006-04-10 No. 1070-8-5	Evaluation of irregularities administration system of the EU Cohesion fund developed in the Republic of Lithuania	System (compliance) audit. Additional audit (added value) to the project winding-up audits under Commission Regulation No.1386/2002
2006-05-09 No. 2020-20-2	Management of domestic waste	Performance audit. Audit provided for in the Public Audit Programme of NAO
2006-06-29 No. FA-1070-5-60	Winding-up audit of CF (ISPA) project No. 2002/LT/16/P/PT/007 „Reconstruction of Transport Corridor IX B in 2003–2004"	Financial audit. Winding-up audit obligation under the Financial Memorandum and Commission Regulation No.1386/2002
2007-02-15 No.FA-70-1P-2	Winding-up audit of CF (ISPA) project No. 2000/LT/16/PT/003 „Modernisation of Pan-European IA Transport Corridor in 2001–2004"	Financial audit. Winding-up audit obligation under the Financial Memorandum and Commission Regulation No.1386/2002
2007-03-30 No.VA-2020-3-3	Implementation of audit recommendations made in the public audit report "Evaluation of implementation of the State Hazardous Waste Management Programme"	Performance audit. Audit provided for in the Public Audit Programme of NAO
2007-03-30 No. VA-20-2P-2	Use of state investments in waste-water treatment	Performance audit. Audit provided for in the Public Audit Programme of NAO
2007-06-29 No.FA-70-1P-51	Winding-up of CF (ISPA) project No. 2000/LT/16/P/PE/002 „Modernisation and rehabilitation of the Druskininkai waste-water treatment system"	Financial audit. Winding-up audit obligation under the Financial Memorandum and Commission Regulation No.1386/2002
2007-11-09 No.FA-P7-70-6-55	Winding-up audit of CF (ISPA) project No. 2003/LT/16/P/PA/004 „Technical assistance for increasing capacities of the Ministry of Environment to administer EU financial assistance"	Financial audit. Winding-up audit obligation under the Financial Memorandum and Commission Regulation No.1386/2002
Audits of the European Agricultural Guidance and Guarantee Fund Guarantee Section The European Commission decides on the clearance of the annual expenditure accounts on the basis of the results of the certification audit of the EAGGF GS expenditure accounts.		
2005-01-31 No. 1070-5-8	Certification audit of the EAGGF Guarantee Section expenditure accounts for 2004	Financial audit. Certification audit following the Commission Regulation No.1663/95
2006-02-03 No. 1070-1-1	Certification audit of the EAGGF Guarantee Section expenditure accounts for 2005	Financial audit. Certification audit following the Commission Regulation No.1663/95
2007-02-07 No. FA-1070-1-1	Certification audit of the EAGGF Guarantee Section expenditure accounts for 2006	Financial audit. Certification audit following the Commission Regulation No.1663/95

Annex 3

Activities of SAIs of the EU Member States in the area of EU in 2002–2007

EU Member State	National SAI overall report on EU financial management	Separate EU section in Annual Report of SAI	Studying feasibility of nat. SAI overall EU report	Focus of EU audits by SAI	Type of EU audit reports by SAI	Object of parallel/ co-ordinated audits
	(1)	(2)	(3)	(4)	(5)	(6)
Austria	P 5/2007	+		A/B	A/B	A/B
Belgium	-	-	-	A	A	A/B/C
Bulgaria	-	-	?	A/B	A/B	A
Cyprus	-	+	-	A	B	-
Czech Rep.	A 3/2008	+		A	A/B	A/B
Denmark	A 12/2006	+		A	B	A
Estonia	P 10/2007	+		A/B	A/B	-
Finland	-	+	-	A/C	A	A
France	-	-	-	A/B	B	-
Germany	-	-	2008	A/(B)	A/B/C	A/C
Greece	-	+	-	A	B	C
Hungary	A 9/2007	+		A	A/B	A
Ireland	-	-	-	A	A	-
Italy	A 2/2007	-		A	A	A
Latvia	-	+	-	A	A/B	A
Lithuania	A 4/2008	+		A/B	A/B	A/C
Luxembourg	-	-	-	-	-	-
Malta	-	-	-	A/B	B	A
Netherlands	A 2/2007	-		A/B	A/B	A/B
Poland	-	-	-	A/B/C	A/B	A/C
Portugal	-	+	-	A/B	A/B	A
Romania	-	+	-	A	A/B	A
Slovakia	-	+	2008	A/B	A/B/C	A/B/C
Slovenia	P 12/2007	+		A	A/B	A
Spain	-	-	-	A/C	B	A
Sweden	-	-	-	A/B	A/B	A
UK	A 4/2007	-		A/C	A/C	A/B

(1): P = periodic, A = annual. The indicated date represents the date of publication of the last overall report or the planned publication of the first overall report.
(2): Indicates if a SAI has a separate section in its annual (regularity) report in which the EU audits and/or activities are presented.
(3): Indicates if a SAI is at present studying the feasibility of developing an overall report on EU financial management – the year notes when the study is expected to be completed.
(4): Indicates the primary focus of the EU audits a SAI conducted in the 2002-2007 period: A = financial management of EU funds; B = EU policy and its results or effects; C = other.
(5): Indicates how a SAI reports the results of EU audits: A = published in a separate report; B = results are integrated in a more general report; C = results are made only available to the auditee.
(6): Indicates the object of any parallel or co-ordinated EU audits a SAI has carried out or is carrying out in the 2002-2007 period: A = EU funds; B = EU policy; C = other topic.

Source: Materials of the EU Member States SAI working group „SAI Reports on Management of the EU Finances", 2007.

Annex 4

Measures provided for in the draft Republic of Lithuania laws on the approval of financial indicators of the state and municipal budgets for 2004–2007 financed by the EU funds*

2004	2005	2006	2007
Agriculture - CAP (market measures, direct payments) - rural development	**Agriculture** - CAP (market measures, direct payments) - rural development	**Agriculture** - CAP (market measures, direct payments) - rural development	**Agriculture** - CAP (market measures, direct payments) - rural development - EAFRD measures - EFF measures
Cohesion policy - Structural funds (SPD) - INTERREG - EQUAL - Cohesion Fund	**Cohesion policy** - Structural funds (SPD) - INTERREG - EQUAL - Cohesion Fund	**Cohesion policy** - Structural funds (SPD) - INTERREG - EQUAL - Cohesion Fund	**Cohesion policy** Structural funds (SPD, structural assistance in 2007-13) - INTERREG - EQUAL - Cohesion Fund
Internal policies - Schengen measure - Kaliningrad transit programme	**Internal policies** - Schengen measure - Kaliningrad transit programme - Instrument for institutional development in transitional period	**Internal policies** - Schengen measure - Kaliningrad transit programme - Instrument for institutional development in transitional period - Ignalina NPP programme - European Refugee Fund Programme etc.	**Internal policies** - Kaliningrad transit programme - Instrument for institutional development in transitional period - Ignalina NPP programme - European Refugee Fund Programme - TEN-T (Rail Baltika) - Special financial instrument LIFE+ programme etc.
Pre-accession assistance - PHARE - SAPARD - ISPA	**Pre-accession assistance** - PHARE - SAPARD **Compensation**	**Pre-accession assistance** - PHARE - SAPARD **Compensation**	
Travel of Lithuania's representatives to the meetings of the bodies of the Council	**Travel of Lithuania's representatives to the meetings of the bodies of the Council**	**Travel of Lithuania's representatives to the meetings of the bodies of the Council**	**Travel of Lithuania's representatives to the meetings of the bodies of the Council**

* The table lists the main measures financed by the EU funds that are reallocated through the Lithuanian state budget.

Source: materials related to the draft Republic of Lithuania laws on the approval of financial indicators of the state budget and municipal budgets for 2004–2007 – EU financial assistance and co-financing funds in 2004–2007

Annex 5

Results of winding-up audits of the Cohesion Fund projects carried out by NAO in 2004–2007

Audit	Audit results
Winding-up audit of ISPA project No 2001/LT/16/P/PA/003 „Preparation by the National Fund and ISPA implementing agencies to apply the procedures of the extended decentralised implementation system (EDIS) covering the deficiency evaluation, preparations for EDIS and compliance assessment phases"	The audit has established that the project objective was not fully attained. i. e. the technical assistance rendered to the implementing authority for the elimination of violations was not effective enough. The objectives of project phases were not attained due to low quality of the Terms of Reference, lack of supervision and coordination of project implementation, inefficient allocation of labour resources for the elimination of weaknesses. In project phase II, the National Fund (the Ministry of Finance) has failed to efficiently resolve the problems encountered and did not set obligations for the participating implementing agencies and contractors. The CPMA was delegated with the responsibility for the technical management of the project including supervision over implementation, however, this responsibility was not included in the legal acts of this agency.
Winding-up audit of CF (ISPA) project No 2000/LT/16/P/PT/002 „Via Baltica development in 2000 – 2003"	The audit has established ineligible expenditure (related to construction materials of inappropriate origin used for the project), insufficient internal controls (the CF monitoring committee was not set up in due time, the procedures of the administration bodies did not provide for a uniform system ensuring quick and appropriate administration of the final report and final application for payment; lack of procedural manuals etc.); in some cases certain public procurement procedures were not complied with, the internal audit unit lacked methodology for sample checks on operations etc.
Winding-up audit of CF (ISPA) project No 2000/LT/16/P/PA/001 „Technical assistance for the development of railway Cretan Corridors IXB, IXD and I"	The audit has established several weaknesses of the management and control system (no detailed working procedures prepared at the beginning of project implementation; no separation of functions of accounting for financial documents and control functions; functions, rights, subordination, responsibility of working groups directly involved in the project implementation ere not established etc.).
Winding-up audit of CF (ISPA) project No. 2002/LT/16/P/PT/007 „Reconstruction of Transport Corridor IX B in 2003–2004"	The audit has established several weaknesses of the management and control system. Inappropriate audit trail related to the disclosure of part of project expenditure in the accounting registers of the National Fund Department of the Ministry of Finance, the TIA under the Ministry of Communications and the Lithuanian Road Administration. On certain administration levels, no financial checks required by the Commission Regulation were carried out. Internal auditors of MC and auditors of the NAO have found expenditure ineligible due to origin of goods.
Winding-up audit of CF (ISPA) project No. 2000/LT/16/PT/003 „Modernisation of Pan-European IA Transport Corridor in 2001–2004"	The audit has established several weaknesses of the management and control system: insufficient number of qualified employees for the performance of accounting and control function. The Lithuanian legal acts do not regulate the accounting for the CF and co-financing funds for the implementation of projects and the relation of such accounting to the accounting of a budgetary institution; the rights and duties of the implementing authority to part in and control the public procurement procedures implemented by the final beneficiary, which narrows the scope of responsibility of the implementing authority set in Articles 2 and 3 of Commission Regulation No. 1386/2002; these articles provide for the implementing authority's responsibility for all the project implementation phases: planning, selection of contractor (through public procurement), project implementation and completion.
Winding-up audit of CF (ISPA) project No. 2003/LT/16/P/PA/004 „Technical assistance for increasing capacities of the Ministry of Environment to administer EU financial	The audit has established that some procedures of the EPMA are not in line with the procedures in the Agency's procedural manual or are implemented but are not described in the manual. The requirements in the procedural manual were not met; the audit trail of project data was not always sufficient. No project manager was appointed for longer than one year. The Agency did not comply with the document preparation and submission deadlines; through the shortage of employees, the separation of management and control functions was not ensured;

assistance"	control over payment applications and invoices was not sufficient; lack of attention to the training of the final beneficiary's employees involved in the administration of projects and conduct of public procurement, both currently and in the future. The EPMA's Public Procurement Commission has not always complied with the Practical Guide (PRAG) to Phare, ISPA & SAPARD contract procedures and provisions of the Law on Public Procurement. In some cases, the provisions of the Regulation and the Financial Memorandum concerning publicity of the project were not complied with; EC symbols were not used in press releases and in the website. EUR 2,031.75 were identified as expenditure not eligible for funding from CF (ISPA); also there is a risk related to eligibility of some other amounts.
Winding-up audit of CF (ISPA) project No. 2000/LT/16/P/PE/002 „Modernisation and rehabilitation of the Druskininkai waste-water treatment system"	The audit has established weaknesses in the internal control related to the EPMA's capacity to ensure compliance with the imperative rules of public procurement. No building permit was obtained for the changes in basic design solutions of the administrative-laboratory building and for commissioning of this building. On-the-spot checks carried out by EPMA were insufficient (however, no cases of inappropriate filling of construction logs was established). In some cases, the final beneficiary failed to perform the functions provided for in the procedural manual. FIDIC engineer, project administrator and financier failed to check invoices within the deadlines stipulated in the contracts. Discrepancies between the final report and the final application for payment have been established.