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

PUBLIC AUDIT REPORT

DECLARATION OF THE PROPERTY AND INCOME OF RESIDENTS

25 October 2012, No. VA-P-60-11-14
Vilnius

SUMMARY

Audit started	7 December 2011
Audit completed	25 October 2012

Full audit report in Lithuanian is available on the website
of the National Audit Office: www.vkontrole.lt

A number of residents of Lithuania are subject to property and income declaration: the property has to be declared by residents included in the list approved by the law, meanwhile income is to be declared by residents who are subject to property declaration, who are engaged in individual activities, who have received income specified in the Law on Personal Income Tax, etc. The number of residents who declared their property held at the end of 2011 totals about 99 thousand. Income received in 2011 was declared by approximately 810 thousand residents.

Declaration of property and income of residents is administered by the State Tax Inspectorate. The property is declared by submitting resident's (family's) annual property declaration, income is declared by submitting resident's annual income declaration. The State Tax Inspectorate provides data of property and income declarations to various institutions for the performance of their functions: Special Investigation Service, Financial Crime Investigation Service, police departments, courts, Central Electoral Commission, etc. Data of declarations of a number of residents (17 job positions out of 56 ones subject to property declaration) is published by the State Tax Inspectorate in the official gazette *Valstybės žinios*. Data of property declarations is also used by municipalities and agencies providing state-guaranteed legal aid in assessing the resident's property and income when a person applies for state support for acquisition and rent of housing, provision of cash social assistance and state-guaranteed legal aid.

International practice emphasises the importance of property and income declaration for preventing corruption and illegal enrichment, increasing transparency of public administration and strengthening public confidence in the public sector, therefore it is very important to ensure not only effective administration of declaration of property and income but also attainment of the objectives set for declaration. The audit objective was to evaluate effectiveness of declaration of property and income:

- is the purpose of declaration of the property and income of residents clear?
- is the administration of declaration of the property and income of residents performed in the right manner?
- is publicly available data of property and income declarations informative?

The audit conclusions were formulated having assessed the guidelines Income and Asset Declarations[1] developed by the World Bank (in collaboration with the United Nations Office on Drugs and Crime), the study Asset Declarations for Public Officials of Eastern Europe and Central Asia[2] carried out by the Organisation for Economic Co-operation and Development Organisation, and foreign experience, and having analysed the administration of the declaration of property and income for 2009–2011 at the State Tax Inspectorate and publishing of data on the property, income and private interests declared by a number of persons.

The audit was conducted on the assumption that the audited and other entities had provided comprehensive and objective information and that copies of the documents correspond to the originals.

The audit scope and methods are provided in Annex 1 to the Report.

The following audit conclusions and recommendations were formulated upon assessment of the audit findings.

Audit conclusions

[1] The World Bank and the United Nations Office of Drugs and Crimes (2009), Income and Asset Declarations: Tools and Trade-offs.
[2] OECD (2011), Asset Declarations for Public Officials: A Tool to Prevent Corruption.

The current declaration of property and income fails to provide for conditions for achieving the objectives set for the declaration of assets and income in international practice, such as to prevent illegal enrichment and conflict of interest, to increase transparency of public administration and strengthen public confidence in the public sector, to correctly reflect changes in the assets and income of the persons subject to declaration.

1. Despite declaration of the property and income of residents for more than 15 years, no targeted objectives have been defined in legislation. Consequently, the effectiveness of property and income declaration system cannot be assessed in the absence of defined objectives.

2. The Law on Personal Income Tax provides for that mandatory name lists which have to be provided to the State Tax Inspectorate contain the names of only about 40 per cent of people who are subject to property declaration. Such legal regulation complicates control of the declaration of individuals subject to declaration.

3. The content and form of the annual income declaration reminds more of the content and form of the income tax declaration because residents have the right not to declare part of their non-taxable income, hence the declaration does not reflect the total income received by the resident.

4. The State Tax Inspectorate is unable to verify the validity of all data of property declarations. Unverified data is used for taking decisions on state support for acquisition and rent of housing, provision of cash social assistance and state-guaranteed legal aid. When such data of property declarations is followed, state support and/or state aid may be granted to persons who actually are not entitled thereto.

5. The data on the property and/or income of individual groups of public persons which is published by the State Tax Inspectorate, the Central Electoral Commission and the Chief Official Ethics Commission is provided in different forms and content. The published declaration data is not sufficiently informative. The existing declaration system does not allow for publishing part of data relevant to the general public since this data is not provided in declarations of property and income.

6. State tax inspectorates fail to ensure sufficient security of data provided in paper declarations because the declarant is not always identified, declarations are registered only in the Declarations Division in Druskininkai town, and measures intended to ensure protection of data in paper declarations against accidental or unlawful destruction, alteration, disclosure, or any other unlawful forms of processing are insufficient.

7. According to 2011 estimates, processing of paper declarations cost nearly three times more than of electronic ones; it is not possible to identify the person who has sent a declaration by post therefore administration of paper declarations increases the costs of the State Tax Inspectorate

and does not provide for conditions for preventing access to another person's data without his knowledge.

8. The State Tax Inspectorate has failed to update the documentation of the Information System of Personal Income Tax Administration and to create a test environment which would have all functions of the Information System of Personal Income Tax Administration, therefore the State Tax Inspectorate is not able to ensure adequate control of changes and correction of failures of this Information System.

9. The State Tax Inspectorate is not able to ensure comprehensive control of data processing of the Information System of Personal Income Tax Administration and of the management of access rights thereto because of failure to carry out regular reviews of the processes of the Information System data processing, access rights granting and security ensuring, and to sufficiently limit the administrators' rights and protect audit records of this Information System. No reference indicators have been defined for data processing and quality processes of the Information System of Personal Income Tax Administration.

Audit recommendations

To the Government of the Republic of Lithuania:

1. To set objectives of declaration of the property and income of residents and to review the existing system of declaration of the property and income of residents assessing possibilities to achieve the established objectives and to take necessary decisions.

2. To assess purposefulness of the use of the data of the annual resident's (family's) property declaration for evaluation of the resident's assets and income in cases when residents apply for state support for acquisition or rent of housing and for cash social assistance.

To the State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania:

1. With a view to ensuring security of data in paper declarations and to creating preconditions for the effective use of resources:

1.1. to amend the procedure for the submission of applications to the State Tax Inspectorate to transfer part of the personal income tax paid to beneficiaries and/or political parties, eliminating the possibility of sending such applications by post.

1.2. to adopt measures to protect the data contained in paper declarations against accidental or unlawful destruction, alteration, disclosure, or any other unlawful forms of processing during the administration of paper declarations in county state tax inspectorates.

2. With a view to strengthening the control environment for the Information System of Personal Income Tax Administration:

2.1. to update the documentation related to the creation, security and operation of the Information System, to define data processing and quality requirements, and to create a test environment for this Information System which would have all working functions thereof

2.2. to provide for regular reviews of the processes of data processing, access rights granting and security ensuring, to limit the administrators' rights allowing them only to correct mistakes and introduce modifications, and to protect audit records of the Information System against any modifications.