NATIONAL AUDIT OFFICE OF THE REPUBLIC OF LITHUANIA

AUDIT REPORT OF THE CERTIFYING BODY

ON THE STATEMENT OF EXPENDITURE OF 2003 OF THE SAPARD

20 April 2004 No. 1070-4-36

Vilnius

2004

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1. EXECUTIVE SUMMARY

1.1 INTRODUCTION

Following the appointment as auditors by the Resolution No. IX-1667 of the Seimas of the Republic of Lithuania Concerning the Assignment to the National Audit Office of Lithuania to Perform Audits of the European Union Financial Aid and the 15 July 2003 assignment No. 1070-4 of the National Audit Office of Lithuania, we have performed an audit of the National Paying Agency under the Ministry of Agriculture (hereinafter referred to as the Agency) pursuant to the Multiannual Financing Agreement[1] (hereinafter referred to as the MAFA) signed between the Commission and the Republic of Lithuania in relation to its role as the Agency. This audit is related to the Agency's operations within the framework of the SAPARD Programme for the financial year ended 31 December 2003 (hereinafter referred to as year 2003).

The audit entailed consideration of the following matters, as set out in Article 6 (4) of Section A of the above MAFA:

- whether the system of internal control in the Agency and the National Fund Department of the Ministry of Finance (hereinafter referred to as the NFD), with particular reference to the accreditation criteria specified in the MAFA, give reasonable assurance that the amounts charged to the Commission comply with Community rules;
- whether the Annual Declaration of Account (Table D-2) of the Agency for the year 2003 is in accordance with its books and records;
- whether the declarations of expenditure (Table D-1) are a materially true, complete and accurate record of the operations charged to the Programme;
- whether the financial interests of the Community are properly protected as regards the amounts to be collected and, where appropriate, guarantees obtained;
- whether the recommendations addressed to the Agency relating to the improvement of systems have been followed up;
- whether any exceptional transactions or technical difficulties have been experienced regarding the financial year concerned.

We are also required to give our opinion as to whether the Annual Declaration of Account of the Agency as well as the SAPARD euro account for the year 2003 is a true, complete and accurate record of the amounts charged to the SAPARD programme. This opinion is contained in the Audit

Certificate presented separately. As indicated in Article 6 of Section A of the MAFA, the Certificate covers compliance of payment with the Community rules only as regards the capability of the Agency's and NFD's administrative structures to ensure that such compliance has been checked before payment is made.

Our work was performed in accordance with the requirements of the MAFA, the guidance notes provided by the European Commission, internationally accepted auditing standards, the guidelines set out by the Commission and Public Auditing Requirements. The format of this Report is also in accordance with Commission guidance and deals with the key internal controls in place, the procedures for ensuring compliance with Community rules and the procedures for the protection of the financial interests of the Community, as well as outlining the relevant recommendations arising.

This Report arises primarily from the body of work undertaken by us and started on 15 July 2003 since our appointment as auditors to the Agency in relation to the financial year ended 31 December 2003. However, it also draws upon the work performed by the Internal Audit Department of the Agency and on our review of certain other external reports. Details of external and internal reports reviewed are outlined in Subsections 4.5 and 6.2.

Included at Appendix I to this Report is a Glosary of Abbreviations used throughout this Report.

1.2 NATURE OF FINDINGS

During the course of our work we have developed and documented a significant number of findings. We have categorised these findings with reference to the level of importance, which we believe should be attributed to each. This categorisation is in accordance with Section E of the MAFA. The categories, which we have used to classify our findings, are as follows:

- **Major findings –** matters that require immediate attention by the Directorof the Agency and / or the National Authorising Officer.
- **Intermediate findings –** matters which are significant in the context of the internal control environment of the Agency and / or the NFD and require immediate attention by management of appropriate level.
- **Minor findings –** matters for which action should be taken to ensure full compliance with the accreditation criteria (the MAFA requirements).

[1] Following the requirements of the MAFA, the National Audit Office of Lithuania was nominated as Certifying Body of the Agency's accounts of the financial year ended 31 December 2003.

1.3 PRINCIPAL FINDINGS – MAJOR

The following major findings were established:

- Operational procedures of the Agency did not ensure that the support under SAPARD would not exceed the maximum support limits stated in the Lithuanian Agriculture and Rural Development Programme for 2000-2006 (hereinafter referred to as the LARDP). The Agency signed eleven Contracts the total amount of which exceeded the maximum support limits stated in the LARDP by 741.158 LTL. In the period of 2002-2003 the Agency exceeded the maximum support limits and paid to seven beneficiaries 122.849 LTL, 87.779 LTL of which – in 2003. The Agency still has obligations under the signed Contracts to pay to three beneficiaries a sum that exceeds the maximum support limit by 563.249 LTL (see Findings 5.5.3.1 and 5.8.3.2).
- Fifteen cases were established when specialists of the Agency subtracted expenditure on works of demolition and dismantling from the Payment claims incorrectly. Decided not to reimburse expenditure on certain works, specialists of the Payment Claims Unit did not withdraw accruals expressed in percentage from direct expenditure of such works. Under such circumstances the Agency overpaid the support under SAPARD to beneficiaries by 108.764 LTL. It should be noted that review procedures, which are applied by the Payment Claims Unit are not sufficient for ensuring detection and correction of such errors (see Finding 5.8.3.3).
- In 2003 the Agency‘s specialists certified as qualified and paid to a beneficiary construction expenditure, in total 420.118 LTL, which may be not directly related to the purposes of the LARDP and be not in compliance with the signed Contract which provides support for investments of construction of new slaughterhouse, cutting shop and utility industrial buildings (see Finding 5.8.3.1). We were unable to satisfy ourselves as to whether the above mentioned funds were paid rightfully and accounted correctly in reports which were signed on 20 April 2004 and have to be submitted to the Commission for the financial year 2003.
- The LARDP names potential applicants, but there are no limitations on use of support funds for interrelated economic entities, which may submit separate projects and the total amount of aid in such case will be higher than the determined maximum support limit. A case was established when in order to receive higher amount than it is the maximum support limit for the sector under the LARDP (1.29 million LTL), the planned investments were possibly falsely divided into three separate projects, the total sum of which was 3.48 million LTL (see Finding 5.4.3.1).

1.4 INTERMEDIATE FINDINGS

During the audit there were established many intermediate and minor findings. Individual findings in principle reflected the same internal control problem. Considering this, the findings were summarized. The following summarized intermediate findings were established:

General findings:

- The Agency‘s implementation of external audit recommendations on development of internal control system is not timely and complete (see Section 8).
- Working documents prepared by responsible staff of Regional Units of the Control Department, Control Department, Rural Development Programmes Department, Finance and Accounting Department are not always appropriate and correct, and the management of these Units not always ensure a proper supervision of their subordinates and review of working documents (see Findings presented in Sections 5.1, 5.2, 5.4, 5.5, 5.8, 5.9, 5.10).

Findings concerning activity of Regional Units of the Control Department:

- A case was established when a Regional Unit of the Control Department submitted to the Agency documents related to a repeatedly received Payment claim which was registered under a new number, without on-the-spot check (see Finding 5.1.3.1).
- Cases established when specialists of a Regional Unit of the Control Department prepared working documents on the on-the-spot check of Application for Support and Payment Claim incorrectly (see Findings 5.1.3.2 and 5.1.3.3).
- A case was established when specialists of a Regional Unit of the Control Department who conducted on-the-spot check of Payment Claim did not examine visually a subject of support purchased in earlier stages of implementation of the Contract (see Finding 5.1.3.4).
- A case was established when a specialist of a Regional Unit of the Control Department signed a filled in report on the on-the-spot check of Payment Claim (PCR 5) as person who conducted the on-the-spot check and who performed a review (see Finding 5.1.3.5).
- Heads of a Regional Unit of the Control Department do not assure a proper monitoring of work and review of supplementary working documents (see Finding 5.1.3.6).

Findings concerning performance of the Control Department:

- A case was established when conclusions of inspection and on-the-spot check materially contradicted each other. Nevertheless, the Agency did not follow regulations of the MAFA concerning on-the-spot checks in order to get sufficient assurance that the investments made met the requirements of the MAFA (see Finding 5.2.3.1).
- A case established when an inspection initiated by the Director of the Agency was not registered in the Journal of On-the-Spot-Checks (see Finding 5.2.3.1).
- Cases established when a report of on-the-spot control check was submitted after the execution of payment (see Finding 5.2.3.2).
- Cases established when the assignments of the Director of the Agency were executed incorrectly when performing on-the-spot control checks (see Finding 5.2.3.3).
- Administration of the list of unfair applicants was non-compliant with the working procedures set (see Finding 5.2.3.4).
- Cases established when selection of projects for planned on-the-spot control check was non-compliant with the Methodology of Project Selection for Planned On-the-Spot Control Check (see Finding 5.2.3.6).

Findings concerning activity of the Rural Development Programmes Department:

Project Evaluation Unit:

- During the financial year audited the Agency had an Operational Manual of only recommendatory character, not mandatory and not confirmed by the order of the Agency Director (see Finding 5.4.3.2).
- Project evaluation procedures applied by the Agency do not provide for assurance for the evaluator whether the sources of financing indicated in the business plan are based on appropriate and fair documents (see Finding 5.4.3.3).
- Order of priority procedures applied by the Agency do not provide for evaluation of the legality and reliability of the submitted information and documents (see Finding 5.4.3.4).
- A case established when a project was certified as eligible under IV Priority Sector of Measure III despite the fact that the business plan of the project was oriented towards rural tourism, which is supported under II Sector of Measure III (see Finding 5.4.3.5).

- Evaluation procedures for eligibility of projects according to the set criteria, as applied by the Agency, provide for certain exemptions for the newly established economic entities. Nevertheless, under control procedures of the Agency, the projects of certified and newly established economic entities are not required to be in compliance with the general eligibility criteria (see Finding 5.4.3.6).
- Cases established when Procurement tenders for the subject of support are won by parties related to the beneficiary (see Finding 5.4.3.7).
- Evaluation procedures applied for projects under SAPARD do not provide for examination of estimates of construction, assembling and reconstruction works listed in the business plans, i.e. no evaluation procedures are carried out as to whether the above mentioned estimates are real, amount of works and prices are reasoned (bills of quantity) (see Finding 5.4.3.8).
- Evaluating a project of the Fishery sector, the Project Evaluation Unit (PEU) applied unidentified evaluation procedures (see Finding 5.4.3.9).
- Project evaluation procedures of the Agency are not sufficient for evaluation and collation of commercial tenders of buyable goods and providable services received by a claimant and submitted together with Application for support (see Finding 5.4.3.10).
- Cases established when PEU staff did not keep to the terms of project evaluation determined in work description of PEU (see Finding 5.4.3.11).
- PEU working procedures do not provide for actions related to receiving and assessing information about financing of projects evaluated from the EU and national support programmes (see Finding 5.4.3.12).

Administration and Analysis Unit:

- Staff of the Administration and analysis unit did not keep to the rules of amendment of the Contract (see Finding 5.5.3.2).

Findings concerning activity of the Finance and Accounting Department:

Payment Claims Unit:

- When estimating the payable amount of aid to beneficiaries (most commonly municipalities) under the SAPARD Rural Infrastructure Development Projects, instead of actual expenditure, the Agency referred to the invoices submitted together with Payment claims which were paid for only in part. Thus in 2003, 13 projects were paid for, in total 3,7 million LTL, not complying with provisions of Article 8, Part 1, Item b of Section A to the MAFA (see Finding 5.8.3.4).

- A case established when a Payment claim, repeatedly submitted and registered under a new number, was paid for without prior check on-the-spot performed by a Regional Office of the Control Department (see Finding 5.8.3.5).
- Payment Claims Unit paid to a beneficiary for equipment, which was used before signing the Contract with a right to test it. As a result of insufficient Agency's procedures ineligible investment could have been paid (see Finding 5.8.3.6).
- A case established when the country of origin of component part of the recoverable equipment was Japan. Cases were also established when certificates of origin of construction materials were not submitted, were insufficient or inappropriate (see Finding 5.8.3.7).
- The Agency does not ensure that payments to beneficiaries would be executed in a timely manner, i.e. no later than in three-months period starting with submission of the Payment claim to a Regional Unit of the Control Department, as it is set out in Article 8, Part 6 of Section A of the MAFA and in provisions of the Contract (see Finding 5.8.3.8).
- Cases established when staff of Payment Claims Unit reduced unsoundly the amount of support asked for in the Payment claim (see Finding 5.8.3.9).
- Qualification of evaluators of Payment claims is insufficient. As a result, ineligible expenditure related to the Sector III Fishery of Measure II - Processing of Agricultural and Fishery Products and Marketing Development may be paid for (see Finding 5.8.3.10).
- Because of inaccurately defined concepts of eligible expenditure, Project Evaluation and Payment Claims Units have different approaches towards what is eligible expenditure related to construction and reconstruction works (see Finding 5.8.3.11).
- Work procedures of the Agency are insufficient for assurance whether specific investments may be ranked as eligible expenditure under the LARDP (see Finding 5.8.3.12).
- Cases established when Payment claims were certified eligible under SAPARD, although subjects of support were insured inappropriately (see Finding 5.8.3.13).
- Cases established when Payment claims were paid out under SAPARD, although referring to work procedures they had to be rejected (see Finding 5.8.3.14).
- The Agency did not have a confirmed procedure of appeal on the rejected Payment claims (see Finding 5.8.3.15).

Payment Unit:

- Non-compliance with the established procedures for accounting of the executed payments was disclosed as a sum of 4.212.991 LTL was registered into the accounting registers without prior bank confirmation of the executed payments (see Finding 5.9.3.1).

Support programmes accounting and reports unit:

- Until the project is not implemented fully, accounting system does not show reductions of payment amount, which took place in the time of evaluation of Payment claim. Consequently, the Ministry of Agriculture and the NFD are provided with incorrect information about liabilities and sums that are to be paid (see Finding 5.10.3.1).

Findings concerning administration of Aid Measure VII:

- Referring to amendment of the LARDP, on 1 January 2003 the Agency delegated part of administration functions of Aid Measure - Vocational training (informal delegation) to the Ministry of Agriculture without assurance of compliance with terms of Article 14, Part 2.3.1-2.3.8 of Section A to the MAFA (see Finding 5.11.3.1).
- Signing agreements on the provision of training services under the Measure Vocational Training, the Ministry of Agriculture does not require a detailed expenditure estimate of providable training services from a service provider (see Finding 5.11.3.2).

Findings concerning activity of the Internal Audit Department:

- While drawing the Strategic Internal Audit Plan for 2001-2003, the requirement of Article 14, Part 2.5 of Section A to the MAFA (in a period no longer than three years all the main areas are to be examined) was not provided with adequate assurance (see Finding 5.13.3.1).
- Action plan for 2004 does not include audits related to administration of SAPARD (see Finding 5.13.3.2).
- Cases established when findings developed during audits of Internal Audit Department were not discussed with the top management of the Agency and not included into audit reports (see Finding 5.13.3).

Findings concerning activity of IT:

- In the time of audit the Agency's regulations of data security and of creation of information systems were not reconciled with appropriate institutions, which is a non-compliance with procedures set forth in Lithuanian legislation (see Finding 5.12.3).

- Information systems creation and information systems administration functions are separate in the Agency, but functions of information systems administrators are not divided (see Finding 5.12.3).

Findings concerning activity of the NFD:

- Procedures manual for SAPARD programme of the NFD does not provide for accounting and administration procedures for recovery of debts (see Finding 4.6.3.1).

1.5 ERROR EVALUATION

The total sample of 100 (25 %) payments was selected for the detailed testing, the sum of which was 77,933,033 LTL (66 %), out of the all the 398 (100 %) payments paid in 2003, the sum of which is 118,093,228 LTL (100 %). Sampling was done by dividing the total sample size of payments into three subpopulations listed in the table 1.1. More details about sampling for substantive detailed testing are presented in Subsection 2.5.3.

Table 1.1

Subpopulations of payments executed in 2003

No.	Subpopulation	Differentiation of Payment claims population into subpopulations		Samples checked by detailed testing			
		Number, units	Sum, LTL	Number		Sum	
				Units	%	LTL	%
1.	1st subpopulation	49	66,430,169	49	100	66,430,169	100
2.	2nd subpopulation	11	1,950,183	11	100	1,950,183	100
3.	3rd subpopulation	338	49,712,876	40	12	9,552,681	19
In total: (population of the executed payments)		398	118,093,228	100	25	77,933,033	66

Substantive detailed testing did not reveal any random (non-systematic) errors. In all cases of systematic errors identified, all the samples were extracted additionally from the population, to which the risk of the respective systematic error was characteristic. Additionally extracted samples were tested only to the extent required to assess the error exactly. All the errors established during the detailed testing and evaluation thereof is presented in detail in the table 1.2 below.

Table 1.2

Evaluation of errors identified in the Annual Declaration of Account of 2003

No.	Error definition	Error type	Additional testing was / was not performed	Subpopulation where the error was identified	Number of samples in which the error was established	Sum of error, LTL
1	Incorrect calculation of sums of ineligible expenditure subtractable from Payment claims.	Systematic	Yes. After identification of errors, all the Payment claims, which bear the risk in this aspect, were selected and tested.	1, 2, 3	15	108,764
2	Support sums paid exceeded the maximum support limit under the LARDP.	Systematic	Yes. After identification of errors, the Contracts signed and the payments paid from the start of implementation of the Programme, which bear the risk in this aspect, were evaluated.	1, 2, 3	6	87,779
			Total	**1, 2, 3**	**21**	**196,543**

Upon the proposal of the European Commission, the materiality threshold set for the audit of the Agency's Annual Declaration of Account was 1 % of total expenditure, which is 1,180,932 LTL.

The total sum of the identified errors (196,543 LTL) does not exceed the materiality threshold set for the audit of the Agency's Annual Declaration of Account (1,180,932 LTL), however, this sum does influence our opinion about accurateness, soundness and completeness of the Agency's Annual Declaration of Account (Table D-2) for the financial year 2003.

The above mentioned amount of errors for the year 2003 and the identified single payment executed in 2002 that exceeded the maximum support limit under the LARDP by 35,070 LTL, in total 122,849 LTL, does influence our opinion about accurateness, soundness and completeness of the Agency's Declarations of Expenditure (Table D-1).

1.6 CONCLUSIONS UNDER THE MAFA

Article 6 of Section A to the MAFA sets out a number of detailed questions which the auditors of the Certifying Body are required to consider in the Report. These questions and our conclusions are set out in the table 1.3 below.

Table 1.3

Answers of the Certifying Body to the questions set out by the MAFA

Requirement per Article 6 of Section A of the MAFA	Our conclusions
Do the procedures of the SAPARD Agency and the National Fund, with particular regards to the criteria and functions in article 4, 5 and 14 of Section A to the MAFA, give reasonable assurance that the operations charged to the Programme comply with the MAFA?	With the exception of our findings and recommendations (see Sections 4 and 5), internal controls procedures applied by the Agency and NFD are theoretically sound and operate satisfactorily in practice.
What recommendations were made and implemented for the improvement of the Agency's and NFD's internal control systems?	Recommendations made and their implementation are presented in detail in Sections 4 and 5 of this Report.
Are the annual accounts and debtors list (Table D-2) referred to in Article 11 of Section A of the MAFA in accordance with the books and records Debtors' ledger of the Agency?	The Annual Declaration of Account is prepared in accordance with data of the Agency's accounting registers.
Are the statements of expenditure provided for in Article 9 of Section D of the MAFA a materially true, complete and accurate record of the operations charged to the Programme?	For details of our opinion in this regard see the Audit Certificate.
Are the financial interests of the Community properly protected as regards amounts to be collected and, where appropriate, guarantees obtained?	The interests of the Community are protected properly. Procedures of debtors' record and debts management are theoretically sound and in compliance with requirements of the MAFA (see Section 7).
Are recommendations on the improvement of internal control system addressed to the Agency and NFD followed up?	In part yes. Detailed information about implementation of recommendations is presented in Sections 5 and 8.
Are there any exceptional transactions or technical difficulties that have been experienced regarding the financial year concerned?	No.
Is the existence and correctness of the national co-financing element verified and confirmed?	Yes (See Section 7).

1.7 COMPLIANCE WITH THE COMMISSION'S GUIDELINES

While performing the audit, we also followed the Commission's guidelines. These guidelines give further explanations to the Agency and the Certifying Body about the systems that should be established and the audit work that should be carried out.

Where appropriate we have used these guidelines in preparing our audit programmes and assessing the systems of the Agency. A summary of our conclusions is set out in the table 1.4 below.

Table 1.4

Conclusions on compliance with the Commission's guidelines

Commission guidelines	Our conclusions
Guidelines No. 1-4, 6, 7	Not relevant
Guideline Nr. 5 Debtors' ledger	The Agency complies with recommendations of this guideline, and has established a Debtors' ledger and procedures for managing debts. Our findings on establishing and appropriate registration of debtors, suspension of payments for debtors and recovery of debts are presented in Section 7.2 of this Report.
Guideline No. 8 Sampling and error evaluation	In order to obtain sufficient, relevant and reliable audit evidence, we applied different audit sampling methods; in some of them we followed this guideline. Our sampling methods are presented in Section 2.5 of this Report.
Guideline No. 9 Delegation of tasks to other bodies and services	We followed this guideline when appropriate in evaluating performance of the Ministry of Agriculture (beneficiary under Measure VII) and Regional Units of the Control Department of the Agency, related to carrying out of delegated functions, although the Agency has not officially delegated any functions to other institutions. We have established that the Agency ensures compliance with the Guideline No. 9 by delegating primary evaluation of Applications and Payment claims to Regional Units of the Control Department. The Agency did not ensure compliance with the Guideline No. 9 by delegating part of administrative and control functions of the Measure VII to the Ministry of Agriculture unofficially. Our conclusions on delegation of tasks are presented in Subsection 4.4 of this Report.
Guideline No. 10 Physical examination	Following the Guideline No. 10 we have examined work procedures prepared and applied by the Agency and related to documentary and physical controls and evaluated the level of compliance with them. In our opinion, requirements of the Guideline No. 10 are implemented. Our examination of procedures and the related recommendations are presented in Section 5.

1.8 OTHER MATTERS

Our audit team comprised ten professional staff of the National Audit Office of Lithuania (NAOL) including two computer risk management specialists. The resources dedicated to the project varied over its life, as required. The persons involved and their qualification and experience in the NAOL are set out below in the table 1.5.

Table 1.5

Audit task group

No.	Name, surname	Position	With the NAOL since
1.	Mr. Tomas Mackevičius	Director of Financial Audit Department 7	1995
2.	Ms. Maina Vaičiūnienė	Principal auditor – manager of the audit team	1993
3.	Ms. Laima Liegutė	Principal auditor	2001
4.	Ms. Žaneta Grečnienė	Senior auditor	2001
5.	Ms. Sigita Rojutė	Auditor	2003
6.	Mr. Marius Stankūnas	Auditor	2003
7.	Ms. Laura Pranckeviciūtė	Auditor	2003
8.	Ms. Vilma Grikšienė	Auditor	2001
9.	Mr. Irmantas Aleliūnas	Senior auditor	2001
10.	Ms. Rūta Obcarskienė	Auditor	2003

2. AUDIT APPROACH

The purpose of this Section is to describe the methods applied for the audit of Annual Declaration of Account for the Agency's financial year ended on 31 December 2003.

2.1 BACKGROUND

With the financial year ended on 31 December 2003, the Agency, in pursue of obligations undertaken to the beneficiaries, executed 398 payments resulting in the expenditures of 118,093,228 LTL, and reimbursed investments under 260 projects approved. The table 2.1 below sets forth the summary data of payments and expenditures in 2002 and 2003, as split by measures, for comparison.

Table 2.1

Payments executed in 2002 and 2003 as per individual support measures

			Measure										Total	
			I		II		III		IV		VII			
Payments executed in 2002	Number of transactions	Units	59		8		13		10		17		107	
		Percentage part of total payments		55		7		12		9		16		100
	Sum	In thousands LTL	13,738		12,964		4,577		2,199		453		33,931	
		Percentage part of total expenditure		40		38		13		6		1		100
	Number of projects awarded with the payments											87		87
Payments executed in 2003	Number of transactions	Units	247		28		26		36		61		398	
		Percentage part of total payments		62		7		7		9		15		100
	Sum	In thousands LTL	53,168		50,947		4,224		7,954		1,800		118,093	
		Percentage part of total expenditure		45		43		4		7		2		100
	Number of projects awarded with the payments						260							260

While assessing the activities of the Agency in 2003 and the system of internal controls related with the administration of Applications for Support (hereinafter referred to as the Application), our audit covered the Applications, which were rejected under respective orders of the Director of the Agency in 2003 (hereinafter referred to as Rejected Application), and the Applications that have led to the signing of Support Contracts and were entered into the account in 2003 as liability of the Agency (hereinafter referred to as the Approved Application). Our audit did not entail the Applications, the administration of which was not finalized in 2003. The administration of Applications is treated as finalized where the Application is rejected under a respective order of the Director of the Agency (the project is not eligible for support) or where a Support Contract is signed and the obligation of the Agency arising there from is entered into the account as liability of the Agency.

In 2003 the Agency administered Applications pursuant to the following support measures of the SAPARD programme:

- **Measure I** Investments in agricultural holdings;
- **Measure II** Improving the processing and marketing of agricultural and fishery products;
- **Measure III** Development and diversification of economic activities, providing for multiple activities and alternative income;
- **Measure IV** Improvement of rural infrastructure;
- **Measure V** Afforestation of agricultural lands and improvement of forest infrastructure;
- **Measure VII** Vocational training.

The Agency started the year 2003 with 298 Applications with the total value of 389,790,827 LTL at hand, the administration of which was not finalized at the expiry of previous financial year of the Agency on 31 December 2002. The above mentioned amount may be lower by the difference between the total amount set forth in Support Contracts and the amount of support applied for in the Applications.

In pursuit of functions attributed thereto, in 2003 the Agency established three stages for the submission of Applications, which are detailed in the table 2.2 below.

Table 2. 2

Stages to submit Applications for Support as organized by the Agency in 2003

Stage	Applications accepted		
	From	**To**	**By Measure**
4.	10-02-2003	14-03-2003	**I.** Investments into agricultural holdings
			IV. Improvement of rural infrastructure
5.	22-04-2003	23-05-2003	**I.** Investments into agricultural holdings
6.	03-10-2003	31-10-2003	**V.** Afforestation of agricultural lands and improvement of forest infrastructure
	13-10-2003	28-11-2003	**I.** Investments into agricultural holdings

The Agency registered a total of 461 Applications with the combined value of 255,018,045 LTL during the abovementioned calls.

In 2003 the Ministry of Agriculture, following the 23 December 2002 Order No. 516 of Minister of Agriculture Concerning the Selection of Suppliers of Training Services under the Measure on Vocational Training of the Special Accession Programme for Agricultural and Rural Development (SAPARD), submitted to the Agency a total of 37 Applications with the aggregate value of 4,645,713 LTL under the Measure VII.

In 2003 the Agency had 796 Applications with the combined value of 649,454,585 LTL for administration. The table 2.3 below sets forth the Applications specified above in accordance with Measures.

Table 2.3

Applications for Support administered by the Agency in 2003 as per individual Support Measures

	Number of Applications registered by Measures												Total	
	I		II		III		IV		V		VII			
	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL
Applications with administration incomplete in 2002	69	39,561,205	45	242,775,307	54	36,544,796	121	69,378,387	0	0	9	1,531,132	298	389,790,827
Applications registered with the Agency during calls IV, V and VI	308	169,802,152	0	0	0	0	150	84,936,680	3	279,213	0	0	461	255,018,045
Applications received in 2003 under Measure VII	0	0	0	0	0	0	0	0	0	0	37	4,645,713	37	4,645,713
Total	377	209,363,357	45	242,775,307	54	36,544,796	271	154,315,067	3	279,213	46	6,176,845	796	649,454,585

The table 2.4 below provides comprehensive information about the results of activities of the Agency as per administration of all 796 Applications mentioned above.

Table 2.4

Results of activities of the Agency related with administration of Applications under individual Support Measures in 2003

2003	Number of Applications registered by Measures												Total	
	I		II		III		IV		V		VII			
	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL
Rejected Applications	27	17,797,188	11	60,547,666	15	7,327,138	85	49,987,214	0	0	0	0	138	135,659,206
Approved Applications	147	70,707,588	32	157,021,308	39	26,224,910	48	24,070,539	0	0	45	5,319,507	311	283,343,852
Applications with administration incomplete	203	120,858,581	2	25,206,333	0[2]	2,992,748	138	80,257,314	3	279,213	1	857,338	347	230,451,527
Total	377	209,363,357	45	242,775,307	54	36,544,796	271	154,315,067	3	279,213	46	6,176,845	796	649,454,585

2.2 OVERALL MATERIALITY AND CONFIDENCE LEVEL

We have planned and executed our audit work in adherence to the MAFA, internationally accepted audit standards, European Commission guidelines and the Public Audit requirements.

The adopted materiality threshold provides reference point for determining whether the errors, omissions or misstatements which have been noted indicate, either individually or cumulatively,

[2] An example when the administration of all applications is finalized, and the data available show a positive balance, which has been generated by signing support contracts with the aggregate sum below the total amount applied for.

that the accounts to be transmitted to the Commission do not give a materially "true, complete and accurate record of the operations charged to the SAPARD programme". The term 'reasonable assurance' embraces the concept of materiality.

Under a respective proposal of the European Commission, the level of materiality applied to this audit shall comprise 1 percent of total net expenditure. This figure equates to 1,180,932 LTL.

The level of confidence that has been recommended and applied comprises 95 percent. However, we determined that only a portion of our audit evidence needs to be directly obtained using statistical techniques. In other words, with statistical sampling applied, we have achieved a level of confidence below 95 percent, which is justified with the evaluation and consideration of the following matters:

- Detailed risk analysis performed at the planning stage, which enabled to apply the audit methodology based on risk and materiality, and to focus the audit work on the high risk areas;
- Review of administration and control procedures for SAPARD measures, control evaluation and walk-through testing;
- Inspection of adherence to the procedures (control tests);
- Audit evidences obtained in full confidence in the activities of internal audit;
- Confidence predetermined by testing of computer control systems;
- Our previous experience of work with the Agency;
- A positive approach of the Agency towards the audit and implementation of recommendations set forth in previous reports.

With reference to the aforementioned results, we believe that we can reduce the level of confidence that is required to be achieved by the testing of samples selected under the monetary unit sampling method.

2.3 METHODOLOGY

All applications finalized and payments executed have been analysed pursuant to all support measures executed in 2003, however, all five measures were subjected to the identical audit methodology as all these measures were essentially administered according to identical measures in 2003.

In most cases, the detailed audit work was related with the following tasks:

- A review of written procedures as applied by the Agency;
- Evaluation of administration system applied for the Measures;

- Evaluation of compliance of administration of Applications with the internal control procedures approved;
- Evaluation of compliance of administration of Payment Claims from the submission thereof till the execution of payment with the internal control procedures approved;
- Evaluation of data contained in the payment ledgers and financial accounting;
- Review of works conducted by Internal Audit Department.

2.4 SCOPE OF AUDIT

We have to state our opinion on the activities of the Agency as related with the execution of SAPARD programme during the financial year ended on 31 December 2003. Thus, our audit covers the activities of 2003. While assessing the suitability of management and control systems and the payments executed, we focused on the evaluation of Applications and Payment Claims the administration of which was finalized in 2003.

In pursuit of certain objectives set to the Certifying Body and relevant challenges arising thereto, we have carried out the following activities during the audit:

- Testing of internal control, which covered the following:
  - Control tests over the administration of Applications for Support;
  - Control tests over the administration of Payment Claims.
- Detailed testing of payments executed.

Summing up of results of the abovementioned tests generated a significant share of evidences required for the audit.

Without discerning any subpopulations by individual Measures, all tests were applied to the Applications and Payment Claims, the administration of which was finalized under the Measures I, II, III, IV and VII in 2003. The scope of our audit excluded the Applications within the Measure V, the administration of which was launched in late 2003.

The detailed information about populations, which were subjected to the abovementioned tests respectively, is provided below.

2.4.1 THE POPULATION OF CONTROL TEST DATA ON ADMINISTRATION OF APPLICATIONS FOR SUPPORT

The control tests over the administration of Applications for Support covered the following procedures:

1. Control tests over the administration of rejected applications (hereinafter referred to as Tests of Rejected Applications);

2. Control tests over the administration of Applications that have been signed and the respective Support Contracts have been entered into the accounts payable (hereinafter referred to as Tests of Approved Applications);
3. Tests applied on the Applications that have been signed and the respective Support Contracts have been entered into the accounts payable, however, the Applications were signed after the additional evaluation, which was initiated by the Director of the Agency after the Project Selection Commission issued the first negative recommendation concerning a particular Application, and which produced a positive recommendation (hereinafter referred to as the Tests of Applications Approved after the Re-evaluation).

The subpopulation of data, which was applied the Tests of Rejected Applications, covered the Applications rejected under respective orders of the Director of the Agency from 1 January 2003 till 31 December 2003, in total 138 Applications with the combined amount of 135,659,206 LTL. Hereinafter referred as the subpopulation of Rejected Applications.

Following the data extended by the Finance and Accounting Department, we have established that a total of 311 Applications with the combined value of 283,343,852 LTL were approved in 2003.

The table 2.5 below specifies the subpopulations of Rejected and Approved Applications in accordance with Support Measures.

Table 2.5

Subpopulations of Applications for Support Rejected and Approved in 2003 according to the Measures of Support

Data subpopulation	Support Measure										Total	
	I		II		III		IV		VII			
	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL
Rejected Applications	27	17,797,188	11	60,547,666	15	7,327,138	85	49,987,214	0	0	138	135,659,206
Approved Applications	147	70,707,588	32	157,021,308	39	26,224,910	48	24,070,539	45	5,319,507	311	283,343,852
Total	174	88,504,776	43	217,568,974	54	33,552,048	133	74,057,753	45	5,319,507	449	419,003,058

2.4.2 THE POPULATION OF CONTROL TEST DATA ON ADMINISTRATION OF PAYMENT CLAIMS

Following the report on activities of Payment Claims Unit of 2003, the Payment Claims Unit received 504 Payment Claims from 1 January 2003 till 31 December 2003. The administration thereof was finalized in the following manner at the expiry of the reporting period:

- 398 Payment Claims with the combined value of 118,093,228 LTL got the positive evaluation and were paid up;
- 3 Payment Claims were rejected as non-compliant with the terms and conditions of Support Contracts;

- 13 Payment Claims were withdrawn by applicants;
- The evaluation of 122 Payment Claims was transferred to 2004 with evaluation thereof incomplete.

Considering the data set forth here above, our control tests on administration of Payment Claims entailed the following:

- Control tests over administration of Payment Claims executed;
- Control tests over administration of Payment Claims rejected.

The subpopulations of data, which were applied the above mentioned control tests respectively, are the following:

- The subpopulation of Payment Claims executed (approved) – 398 Payment Claims that have got positive evaluation and have shared a total of 118,093,228 LTL;
- The subpopulation of rejected Payment Claims - 3 (2,416,826 LTL) Payment Claims that have been rejected over non-compliance with the terms and conditions of Support Contracts.

The table 2.6 below sets forth the subpopulations of data specified here above and worked out pursuant to the Measures of Support.

Table 2.6

Subpopulations of Payment Claims executed and rejected in 2003 as per Measures of Support

Data subpopulation	Support Measures										Total	
	I		II		III		IV		VII			
	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL
Payment Claims executed	247	53,167,896	28	50,946,855	26	4,223,800	36	7,954,438	61	1,800,239	398	118,093,228
Payment Claims rejected	0	0	2	2,349,626	0	0	0	0	1	67,200	3	2,416,826
Total	247	53,167,896	30	53,296,481	26	4,223,800	36	7,954,438	62	1,867,439	401	120,510,054

2.4.3 THE POPULATION OF TEST DATA ON DETAILED CHECK OF PAYMENTS EXECUTED

From 1 January 2003 till 31 December 2003, the Agency executed 398 payments with the combined value of LTL 118,093,228 LTL under 260 projects approved. The population of data used for the sampling for detailed testing covered all the abovementioned payments. The population coincides with the subpopulation set forth for the control tests over the administration of Payment Claims executed (Table 2.6).

2.5 SELECTION CRITERIA

The sampling for the evaluation of suitability of management and control system and the payments executed was based on detailed risk analysis conducted within the audit planning stage. The analysis enabled us to apply the audit methodology based on risk and materiality, and concentrate audit activities on the high risk areas. Risk assessments carried out are worked out in detail in the Audit Plan and documents related thereto.

2.5.1 SAMPLES OF CONTROL TESTS ON ADMINISTRATION OF APPLICATIONS FOR SUPPORT

While planning the audit we established that we have to conduct tests of 30 Approved Applications and 5 Rejected Applications in order to evaluate the suitability of administration of Applications for Support and the system of control. The abovementioned 30 tests were distributed by 5 among all five Measures encompassed by the audit, while the remaining 5 tests of approved projects were conducted for the Applications approved after the re-evaluation. Tests of five Rejected Applications were distributed by one among all five Measures as well.

The samples of testing were selected via the application of a number of different sampling criteria related with the value of applications, the nature and title thereof and the particulars of administration.

The table 2.7 below specifies all Rejected Applications and the Applications sampled for Application Testing according to Support Measures.

Table 2.7

Population of Applications rejected in 2003 and samples thereof selected for the testing of control according to the Measures of Support

Data population	Support Measure										Total	
	I		II		III		IV		VII			
	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL
Population of Rejected Applications	27	17,797,188	11	60,547,666	15	7,327,138	85	49,987,214	0	0	138	135,659,206
Applications selected for the testing of control over administration of Rejected Applications	1	1,294,800	1	271,100	1	1,204,480	1	431,600	1	516,252	5	3,718,132

The table 2.8 below specifies all Approved Applications and the part thereof selected for testing according to the Measures of Support.

Table 2.8

Population of Applications approved in 2003 and Approved Applications selected for control testing according to the Measures of Support

Data population	Support Measure										Total	
	I		II		III		IV		VII			
	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL
Population of Approved Applications	147	70,707,588	32	157,021,308	39	26,224,910	48	24,070,539	45	5,319,507	311	283,343,852
Applications selected for the testing of control over administration of Approved Applications	5	3,278,651	5	22,148,195	5	4,311,730	5	4,136,263	5	636,693	25	34,511,532
Applications selected for the testing of control over administration of applications approved after re-evaluation	1	295,124	3	14,175,622	3	295,931	0	0	0	0	5	14,766,677

2.5.2 Samples of Control Tests on Administration of Payment Claims

While planning the audit we established that, in pursuit of proper assessment of suitability of the system of administration and control of Payment Claims, we have to sample 30 Payment Claims paid and 3 Payment Claims rejected.

The Agency rejected only three Payment Claims, which enabled us to conduct a review of all three claims (for differentiation thereof by measures see a respective line of table 2.6).

In pursuit of utmost rationality, the testing of control over the administration of Payment Claims paid was coordinated with detailed testing. 30 Payment claims paid were selected for the testing of control statistically from all 100 samples selected for detailed testing (for the latter see subsection 2.5.3) via the application of monetary unit sampling method.

The table 2.9 below specifies all Payment Claims paid and the Payment Claims selected for testing according to the Measures of Support.

Table 2.9

Population of Payment Claims paid in 2003 and the samples thereof selected for the testing of control according to the Measures of Support

Data population	Support Measures										Total	
	I		II		III		IV		VII			
	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL
Payment Claims paid	247	53,167,896	28	50,946,855	26	4,223,800	36	7,954,438	61	1,800,239	398	118,093,228
Samples of Payment Claims paid selected for the testing of control over administration	13	4,776,119	16	40,647,501	0	0	1	673,604	0	0	30	46,097,224

2.5.3 SAMPLES OF DETAILED TESTS OF PAYMENTS EXECUTED

From 1 January 2003 till 31 December 2003, the Agency executed 398 payments with the total value of 118,093,228 LTL according to 260 projects approved, which complies with the data population for the detailed testing of executed payments, which is specified in the table 2.10 below according to the Measures of Support.

Table 2.10

Population of Payment Claims executed in 2003 according to the Measures of Support

Data population	Support Measures										Total	
	I		II		III		IV		VII			
	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL
Payment Claims executed	247	53,167,896	28	50,946,855	26	4,223,800	36	7,954,438	61	1,800,239	398	118,093,228

In adherence to the information collected during the audit planning and in pursuit of rational generation of sufficient, proper and reliable audit evidences required to develop an opinion about the Annual Declaration of Account, we have applied several sampling methods to select 100 Payment Claims executed in 2003 for detailed testing. The abovementioned samples were selected by splitting the population of 398 payments into the following three subpopulations:

- **1st subpopulation** – covers all payments in excess of 500,000 LTL, i.e., a total of 49 payments (with the combined amount of 66,430,169 LTL). These payments comprise 12 percent of all Payment Claims executed, however, they account for as much as 56 percent of total expenditures sustained. The abovementioned 49 Payment Claims were singled out as atypically large and attributable to higher risk, which prompted us to check 100 percent of this subpopulation.
- **2nd subpopulation** – executed Payment Claims with value below 500,000 LTL that have been sampled under the method of risk analysis and that are associated with higher risk. We have selected a total of 11 Payment Claims (with the combined value of 1,950,183 LTL) in this subpopulation.
- **3rd subpopulation** – covers the remaining 338 Payment Claims (the amount of 49,712,876 LTL) that have not been included in the first two subpopulations.

Insignificant number of transactions in the 1st and the 2nd subpopulations enabled us to conduct the detailed testing of all elements (100 percent) of both subpopulations.

While selecting the samples from the 3rd subpopulation, we applied the monetary unit sampling method, which produced a statistical selection of 40 payments for the aggregate amount of 9,552,681 LTL.

During the substantive (detailed) testing, we have conducted tests of 100 payments with the combined amount of 77,933,033 LTL, which comprised 25 percent of population of executed payments and 66 percent of total expenditures sustained in 2003.

Table 2.11

Population of Payment Claims executed in 2003 and samples thereof according to the Measures of Support

Data populations and samples thereof	Measures										Total	
	I		II		III		IV		VII			
	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL	Units	LTL
Population of payments executed in 2003	247	53,167,896	28	50,946,855	26	4,223,800	36	7,954,438	61	1,800,239	398	118,093,228
Sampled for detailed testing	57	21,932,545	26	50,783,975	6	1,709,993	9	3,354,253	2	152,267	100	77,933,033
Samples from the 1st subpopulation	20	13,331,417	25	50,651,975	1	725,824	3	1,720,953	0	0	49	66,430,169
Samples from the 2nd subpopulation	8	1,448,550	1	132,000	1	256,245	0	0	1	113,388	11	1,950,183
Samples from the 3rd subpopulation	29	7,152,578	0	0	4	727,924	6	1,633,300	1	38,879	40	9,552,681

2.6 COMPUTER SYSTEM RISK MANAGEMENT

We have assessed the strategy of information technologies approved by the Agency, the policy of security established in pursuit of assurance of accessibility, security and integrity of all data.

Furthermore, we have evaluated the efficiency of security measures of the IT system to the extent related with the administration of the SAPARD programme and compliance with the Commission guideline No. 3.

2.7 INTERNAL AUDIT

Audit procedures conducted at the Agency and NFD have entailed the evaluation of internal audit function in 2003, which was related with the assessment of the system for administration and control of SAPARD support programme. We have reviewed the internal audit reports about the adherence to the established control procedures at the Agency and NFD in the course of implementation of functions related with the administration of the SAPARD programme.

Moreover, we have considered the inconsistencies within the system of internal control of the Agency as established by the internal audit.

2.8 REVIEW OF COMPLIANCE WITH ACCREDITATION CRITERIA

The evaluation of compliance of SAPARD programme administration executed by the Agency with the accreditation criteria was based on the results of control and detailed tests. Moreover, we have considered the conclusions of other audits in this sphere conducted by external and internal auditors.

While conducting the audit, we reviewed and considered the findings and recommendations issued by the EU auditors who visited the Agency and NFD in 2003. The findings and recommendations of the abovementioned audit missions were forwarded to us in the documents specified in the table 6.1. In addition, we have assessed the course of implementation of previous recommendations of external and internal auditors as related with the improvement of internal control procedures.

2.9 PAYMENT AND ACCOUNTING SYSTEMS

We have checked the measures of internal control applied by the Agency and NFD and the procedures related with the disbursement and accounting of SAPARD funds and the management of SAPARD euro account.

2.10 RECONCILIATION OF DATA IN THE ANNUAL REPORT OF THE AGENCY

We have reconciled the data of Annual Declaration of Account for 2003 (Table D-2) with the following documents:

- Records in the accounting system of the Agency;
- Funds received from the European Commission;
- Records in the Debtor Ledger of the Agency.

Moreover, we have checked the implementation of national co-financing (paragraph c of Part 1 of Article 6 of Section A of the MAFA) as set forth in the Article 8(2) of Section A of the MAFA.

3. RECONCILIATION OF THE ANNUAL DECLARATIONS

3.1 RECONCILIATION BETWEEN THE ANNUAL DECLARATION OF ACCOUNT D-2 AND THE RECORDS OF ACCOUNTING SYSTEM OF THE AGENCY

We have collated the data recorded in the Annual Declaration of Account (table D-2) with the data provided in the summary of reports on evaluation of Payment Claims (AA2):

LTL

Table D-2	118,093,228
Summary of reports on evaluation of Payment Claims (AA 2)	118,093,228

No differences have been revealed.

3.2 RECONCILIATION BETWEEN THE TABLE D-2 AND THE AMOUNTS RECEIVED FROM THE COMMISSION

Reconciliation between the Table D-2 and the amounts received from the Commission :

EUR

EU contribution to the expenditure as per Table D-2	25,652,793
EC funds transferred to the SAPARD euro account	24,921,162
Difference	731,631

Reasons for the difference:

- The difference of 731,131 EUR is a gap between the EU contribution to expenditure in the last quarter of 2003, a total of 12,335,415 EUR, which was declared to the Commission in 2004, and the amounts received from the EU in the second quarter of 2003:
  - 4,170,998 EUR in the EU contribution to expenditure in the last quarter of 2002, which was declared in 2003;
  - An additional application for the payment from the EU in the amount of 7,433,086 EUR;
  - 200 EUR fee to a foreign bank for money transfer.
- The difference of 500 EUR is a fee to a foreign bank for money transfer.

NFD and the European Commission are currently engaged in deliberations over the party – either Lithuania or Commission – that should cover foreign bank fees.

3.3 Reconciliation between the Table D-2 and the Amounts recorded in the Euro Account of SAPARD

Reconciliation between the Table D-2 and the amounts recorded in the Euro Account of SAPARD:

	EUR
SAPARD euro account balance as at 31 December 2002	3,411,266
Interest on 2003	68,736
Amounts recovered from beneficiaries	8,425
EU contribution to Expenditure as per Table D-2	-25,652,793
Amounts received from the Commission in 2003 (excluding the fee for bank services)	24,921,162
SAPARD euro account balance as at 31 December 2003	2,756,796

The SAPARD euro account balance in the beginning and at the end of the reporting period is validated by the Bank of Lithuania statements dated 13 January 2003 and 15 January 2004.
The interest accrued to SAPARD euro account balance during 2003 is confirmed by the Bank of Lithuania statement dated 19 January 2004.

3.4 Reconciliation between the Expenditure recorded in the Table D-2 (EU part) and the Amounts Transferred from the SAPARD Euro Account to the Agency / Beneficiaries

Reconciliation between the expenditure recorded in the Table D-2 (EU part) and the amounts transferred from the SAPARD Euro account to the Agency / Beneficiaries:

	LTL	EUR
Expenditure (EU part) as per Table D-2 (currency rate according to MAFA requirements)	88,569,921	25,652,793
Amounts transferred to the Agency / beneficiaries (currency rate as per exchange rate announced by the Bank of Lithuania)	88,573,964	25,652,793
Difference	4,043	

A surplus of 4,043 LTL generated via currency exchange was transferred to the national funding account No. 2235419, used for settlements for banking services and coverage of currency rate difference.

3.5 Reconciliation between the Total Debts Declared in the Table D-2 and the Debtor's Accounting Ledger of the Agency

Reconciliation between the Total Debts Declared in the Table D-2 and the Debtor's Accounting Ledger of the Agency :

	Lt	EUR
Debts declared in the Table D-2	164,856	47,738
Agency's Debtor's Accounting Ledger	164,856	47,738

No differences have been revealed.

4. ORGANIZATIONAL STRUCTURE OF NATIONAL PAYING AGENCY AND NATIONAL FUND DEPARTMENT

4.1 NATIONAL PAYING AGENCY

The Special Accession Programme for Agricultural and Rural Development (SAPARD) is implemented under the Lithuanian Agricultural and Rural Development Programme for 2000-2006 (hereinafter referred to as LARDP), which was approved officially by the European Commission resolution No. 3329 on 27 November 2000.

In pursuit of implementation of the above programme, the Government of the Republic of Lithuania established the National Paying Agency under a resolution No. 1266 passed on 11 November 1999.

The objective of activities of the Agency is to implement the measures of Lithuanian Agricultural and Rural Development Policy within the scope of its competence pursuant to the procedures prescribed by the MAFA, the laws and other legal acts of the Republic of Lithuania.

In pursuit of implementation of the above objective, the Agency fulfils the following functions charged thereto:

- Authorises commitments and payments;
- Executes payments;
- Manages the accounting of commitments and payments;
- Assures control (evaluation of eligibility for financing, pre-project and pre-payment checks);
- Generates reports to the Government of the Republic of Lithuania, Ministries of Agriculture and Finance and, within the scope of competence, to authorized EU institutions pursuant to the terms and formats established in the MAFA.

As at 31 December 2003, the Agency employed a workforce of 264. The agency is headquartered at Gedimino av. 19, LT-2025 Vilnius, Republic of Lithuania.

The structure of the Agency has been established with consideration of tasks and functions assigned thereto. As at 31 December 2003, the Agency encompassed 9 departments (the organizational structure of the Agency is specified in the Appendix No. 3).

While conducting the audit procedures, we evaluated the activities (execution of procedures) of Agency units related with the administration of SAPARD programme (units charged with evaluation of Applications for Support and Payment Claims, arrangement of Support Contracts, authorization, accounting and control of Payments). These structural units of the Agency are specified in the table 4.1.

Table 4.1

Structural units of the Agency related with the administration of SAPARD programme and functions thereof

No.	Structural unit	SAPARD programme administration functions performed
1.	**RURAL DEVELOPMENT PROGRAMMES DEPARTMENT** (until 8 September 2003, the SAPARD Department)	
1.1	Project Evaluation Unit	• Evaluation of Applications for SAPARD support • Generation of reports on project evaluation • Presentation of project evaluation reports to the Project Selection Commission
1.2	Administration and Analysis Unit (until 8 September 2003, the Project Administration Unit)	• Arrangement and rendering of Support Contracts • Supervision of terms and conditions of Support Contracts, signing of Support Contracts • Projects administration • Analysis of SAPARD programme implementation
2.	**FINANCE AND ACCOUNTING DEPARTMENT**	
2.1.	Payment Claims Unit	• Analysis and evaluation of Payment Claims • Determination of amounts payable • Generation of reports on evaluation of Payment Claims • Passing of decisions over the authorization of Payment Claims
2.2.	Payment Unit	• Issue of instructions to the bank to pay the applicant (or his authorized representative (-s)) the approved amount, transferring thereof to the beneficiary's banking account • Generation of reports on payments fulfilled • Transfer of information about payments authorized to the Support Programme Accounting and Reports Unit • Generation of notification to the beneficiary about the transfer of funds to the banking account specified in the Support Contract
2.3.	Support Programmes Accounting and Reports Unit (until 8 September 2003, the Accounting and Reports Unit)	• Representation of commitments and payments in individual Agency's accounting registers designated for SAPARD expenditures • Generation of applications for the allocation of SAPARD funds from the EU and submission thereof to the National Fund • Generation of applications for the allocation of co-financing resources and submission thereof to the Ministry of Agriculture • Management of SAPARD and co-financing funds accounting. • Generation of financial reports (quarterly, annual) • Debtors' accounting
3.	**CONTROL DEPARTMENT** (until 1 January 2003, the Control Unit)	
3.1.	Risk Analysis Unit	• Sampling of Applications for Support and Payment Claims for scheduled check
3.2.	Control Coordination Unit	• Generation of work instructions, methodologies and recommendations for structural units of Control Department
3.3.	Control Quality Unit	• Performance of scheduled and customized checks of Applications for Support and Payment Claims
3.4.	Regional Units	• Primary evaluation of Applications for Support and Payment Claims, including pre-project and pre-payment on-the-spot checks

4.	**INTERNAL AUDIT DEPARTMENT** (until 8 September 2003, the Internal Audit Service)	
4.1.	Support Audit Unit	• Evaluation of compliance of activities of the Agency and structural units thereof with the provisions of legislation of the Republic of Lithuania and the EU
	Activity Audit and Planning Unit	• Evaluation of adequacy and efficiency of internal control system in effect at the Agency
	Delegated Functions Implementation Audit Unit	• Execution of functions prescribed by EU Council Regulation (EEC) No. 4045/89, laws and other legal instruments • Execution of instructions issued by the Director of the Agency and related with the functions delegated to the Agency by law, and internal audit
	INFORMATION TECHNOLOGY DEPARTMENT	
	Systems Development Unit	• Coordination of installation of information systems developed at the Agency
	Systems Administration Unit	• Monitoring of information systems in use at the Agency

While conducting audit procedures, we evaluated the activities (implementation of procedures) by the Agency's Project Selection Commission, which is not a regular structural unit; yet, it is also involved in the administration of SAPARD programme.

The objectives, tasks, functions, staff and other detailed information on each structural unit of the Agency engaged in the administration of SAPARD programme is provided in the Section 5 of this Report.

4.2 CONTROL DEPARTMENT

The Control Department (hereinafter referred to as CD) is established at the headquarters of the Agency. The structure of Control Department covers the following units:

- Risk Analysis;
- Control Coordination;
- Control Quality;
- 10 Regional Units.

The main function of CD is to ensure proper quality of the on-the-spot checks of Applications for Support and Payment Claims. While executing this function, the units of CD perform the following activities:

- Select Applications for Support and Payment Claims for scheduled check;
- Arrange work descriptions, methodologies and recommendations for the structural units of the Control Department;
- Carry out planned and inquired checks of Applications for Support and Payment Claims.

Moreover, CD is charged with coordination of activities of its territorial units and control over operations thereof.

We have conducted a review and evaluation of control procedures set forth in the work description of CD, and have inspected the adherence to the requirements of Commission Guideline No. 10 governing the actual checks. The results of comprehensive testing, our findings and conclusions are provided in the Subsection 5.2 of this Report.

4.3 CONTROL DEPARTMENT REGIONAL UNITS

Following the 10 August 2002 Resolution No. 1240 of the Government of the Republic of Lithuania, former regional units of Rural Development Programmes were integrated into the Agency and turned into the Regional Units of Control Department (hereinafter referred to as CDRU). The Control Department incorporates 10 Regional Units – in Alytus, Kaunas, Klaipeda, Marijampole, Panevezys, Siauliai, Taurage, Telsiai, Utena and Vilnius. As at 31 December 2003, the Regional Units of the Control Department employed a workforce of 107 (the staff number per each CDRU is provided in the Table 5.1 of Section 5).

CDRU fulfil the following functions:

- Offer all persons concerned a possibility to submit Applications for Support and Payment Claims;
- Conduct primary evaluation of Applications for Support, including the evaluation of regularity of the completion of Application and the particularity of information and documents provided;
- Register the Applications and conduct on-the-spot check;
- Conduct primary evaluation of Payment Claims, including the evaluation of regularity of its completion and the adequacy of information and documents provided;
- Register the Payment Claims and conduct on-the-spot check thereof.

Following the procedure prescribed, CDRU generate quarterly and annual activity reports to the Risk Analysis Unit of Control Department.

We have conducted a review and evaluation of control procedures set forth in the work description of CDRU, and have inspected the adherence to the requirements of Commission Guideline No. 10 governing the actual checks. The results of comprehensive testing, our findings and conclusions are provided in the Subsection 5.1 of this Report.

4.4 DELEGATED FUNCTIONS

4.4.1 CONTROL DEPARTMENT REGIONAL UNITS

Following the provisions of Commission Guideline No. 9 concerning the Delegation of Tasks to Other Institutions or Services, the Agency may delegate tasks to other services incorporated in the Agency and established outside its headquarters, i.e., to the services of regional type. Accordingly, the Agency has delegated the following functions to CDRU:

- Registration of Applications for Support and Payment Claims;
- Conduct of primary evaluation of Applications for Support and Payment Claims (regularity of completion thereof and particularity of documents);
- Conduct of on-the-spot check of Applications for Support and Payment Claims.

4.4.2 MINISTRY OF AGRICULTURE

Upon due coordination with the European Commission and adjustment of Appendix II to LARDP, the Ministry of Agriculture (hereinafter referred to as MOA) was turned into a beneficiary of Measure VII Vocational Training, starting from 1 January 2003. Accordingly, the MOA took over the following part of functions on administration of measures within the SAPARD programme:

- Selection of training service suppliers via procurement tenders (announcement and organization of procurement tenders, consideration and assessment of bids);
- Conclusion of contracts with winning bidders;
- Conclusion of Support Contract with the Agency;
- Settlement of payments for training services provided;
- Provision of the Agency with the Payment Claim specifying the amount of support for reimbursement and the expenditures sustained, as well as with the copies of documents to validate the expenditures.

In 2003 a special commission appointed by the MOA and charged with administration of Support Measure Vocational Training assessed 128 projects, of which 37 were approved.

On 19 December 2003 the Agency and the MOA concluded a joint agreement on administration of SAPARD Programme Measure Vocational Training (No. TPS 5-195/554), which set forth the obligations and responsibility of parties engaged in joint administration of SAPARD Programme Measure Vocational Training.

While conducting the audit, we visited the MOA and evaluated the implementation of functions delegated thereto. Our findings, conclusions and recommendations are set forth in Section 5.11 of this Report.

4.5 Internal Audit Department – National Paying Agency and National Fund Department

4.5.1 Internal Audit Department of National Paying Agency

While conducting the audit procedures, we tackled the strategy, structure and functions of Internal Audit Department (hereinafter referred to as IAD) with the managers thereof and considered the department's plans for 2004. Moreover, we carried out a review of audit procedures conducted by IAD during the current year.

With the changes in the structure of the Agency coming into effect under the order of the Director of the Agency on 29 August 2003, the Internal Audit Service was expanded and reorganized into IAD.

IAD is an independent and several unit that does not take part in the activities of the Agency. Moreover, it bears no responsibility for the internal control procedures performed by all levels of managers of structural units of the Agency. IAD is a direct subordinate of the Director of the Agency.

IAD is comprised of the following three units:

- Support Audit;
- Activity Audit and Planning;
- Delegated Functions Implementation Audit.

A new IAD Director responsible for the execution of functions and tasks assigned to the department was appointed via a tender in December 2003. Units are managed by unit Heads. As at 31 December 2003, IAD employed a workforce of 12, including the Director, 2 unit Heads and 9 senior experts. In 2003 one employee resigned and three new officers were hired. In the nearest future, a Director to the Activity Audit and Planning Unit and a senior expert should be hired.

The main tasks of IAD are the following:

- To evaluate and provide the Director of the Agency with unbiased and objective information concerning the adequacy and efficiency of internal control system in effect at the Agency, the responsible approach towards the activities, adherence to the provisions of MAFA, laws of the Republic of Lithuania and other legal regulations, reliability and particularity of information about financial and other activities, achievements of objectives and implementation of tasks.
- To provide the Director of the Agency with unbiased and objective information about potential risks of activities.

- To conduct supervision of administration of Public Support funds, funds received from the EU or other funds, as well as the monitoring of efficiency, effectiveness, cost saving and productivity of use of the above funds.
- Upon Lithuania's accession to the EU, to conduct supervision over the administration of EU Structural Funds, Common Agricultural Policy and Rural Development Measures, and the monitoring of efficiency, effectiveness, cost saving and productivity of use of financial resources.
- To carry out supervision over the adequacy of implementation of delegated functions of institutions, to conduct the monitoring of efficiency, effectiveness, cost saving and productivity of employment of budget funds assigned for the Agency.

In pursuit of implementation of functions prescribed, IAD shall have the right to obtain the following:

- Copies of documents required for audit from all and any structural units, beneficiaries and institutions delegated with specific functions, as well as written and verbal explanations of employees of entities under audit.
- The required rights to use Internet network or software for the monitoring of functioning of information system under audit.
- To conduct the audit at option and enter all and any premises of audited entity without any prior notification.

IAD conducts audit procedures pursuant to the Internal Audit Manual, which prescribes the audit methodology from the audit scheduling till the post-audit activities. Moreover, the manual provides typical examples of working documents. Considering the audit findings cited by private company PricewaterhouseCoopers UAB concerning the failure to adhere to the audit documentation requirements set forth in the Internal Audit Manual, the Agency assumed an obligation to execute respective amendments of the Internal Audit Manual until the end of 2003. However, the above corrections of the Internal Audit Manual have not been made within the term prescribed. The recommendation was implemented in February 2004.

The works carried out by IAD are documents in the paper format files. In 2004 the Agency expects to acquire software required for documentation. Integrated audit activity documentation system is expected to be installed within twelve months to come.

4.5.1.1 Activities of IAD in 2003

Our audit procedures entail the activities of the Agency related with the implementation of the SAPARD programme. Accordingly, we have reviewed the audit procedures related with the administration of SAPARD programme and conducted by IAD in 2003. These audits are specified in the table 4.2.

Table 4.2

Audits conducted by IAD in 2003 and related with the SAPARD programme

Audit title	Date of completion
1. Audit of preparedness to administer the support under Measures V and VIII	26-02-2003
2. Audit of completeness, accuracy and timeliness of financial reports on the European Union funds	10-04-2003
3. Audit of SAPARD support administration accordance to individual projects	18-04-2003
4. Audit of preparedness to administer the support under the Measure VI	24-12-2003 project
5. Audit of control environment and procedures applied by the Control Department	08-10-2003
6. Audit of compliance of amendments in activity descriptions, related with the recommendations of the Certifying Body, with the provisions of the MAFA	28-11-2003

Apart the abovementioned audit procedures, in 2003 IAD fulfilled the following tasks:

- Inspection of utilization of SAPARD Programme funds at the Mazeikiai Polytechnic School, which implemented a training programme for farmers;
- Supervision of compliance of Support Contract concluded between the Agency and farmer Jolanta Bagočiūnienė with the National Agricultural and Rural Development Programme for 2000 – 2006;
- Drawing of policy of fight against corruption.

4.5.1.2 Review of audit procedures performed by IAD

The audit of SAPARD support administration in accordance with individual projects has not been included in the annual audit schedule. Audit procedures were carried out under the respective assignment of the Director of the Agency, specifying the projects to be subjected to audit procedures. The procedures involved a re-inspection of administration procedures from the registration of Application for Support at CDRU until the signing of Support Contract, including the on-the-spot check.

The Audit Certificate contains a conclusion stating that the Agency has ensured the adherence to the provisions of the MAFA. Moreover, the conclusion specifies that the system of internal control and the internal control procedures have been implemented in practice, and the financial interests of the European Union and the Republic of Lithuania were protected properly.

The audit of completeness, fairness and timeliness of financial reports on the funds of the European Union covered the inspection of timeliness, completeness and accuracy of EC addressed financial reports on the utilization of EU funds from 26 November 2001 till 31 December 2002 and compliance of the above reports with the registers and summaries arranged by AAU and PU.

Moreover, the unit inspected the timely submission of Payment Claims and compliance thereof with the terms and conditions set forth in the Support Contracts.

The audit conclusions have confirmed that the internal control procedures were implemented at CD, AAU, PCU, and SPARU by all aspects except for the recommendations specified, while the financial reports about the utilization of EU funds were produced in a timely manner and represented the utilization of EU funds fairly.

The audit of control environment at the Control Department and the implementation of procedures has not been envisioned in the annual audit schedule. However, the audit was conducted under a respective assignment of the Director of the Agency, which was issued after the disclosure of fraud with the use of SAPARD support at the private company Šilų Paukštynas UAB. Audit procedures were focused on investment projects with value in excess of 1 million LTL and related with construction, reconstruction or renovation.

The Audit Certificate has confirmed that CD experts executed the principal procedures set forth in activity descriptions. The internal control measures were implemented in practice, while the effect of internal control system was satisfactory. However, we have noted that lack of responsibility of staff of certain services and ambivalent interpretation of certain matters led to the adoption of erroneous decisions.

The IT audit of the Agency, which was targeted at the assessment of compliance of the computer system with the security requirements, covered the supervision and evaluation of IT strategy and policy, procedures and activity descriptions.

The Audit Certificate has confirmed that the Information System of the Agency complied with the requirements set forth in the SAPARD ICT Guideline No. Concerning the ICT security criteria and the provisions of the MAFA. The internal control of Information Technology unit was effective and operational.

The audit of compliance of amendments to activity descriptions related with the recommendations of the Certifying Body with the provisions of the MAFA has been omitted from the annual audit schedule. However, the respective audit procedures were conducted under a relevant assignment of the Director of the Agency. The audit entailed all amendments to job profiles at structural units. Moreover, the unit conducted a re-inspection of administration procedures ranging from the submission of Applications for Support till the authorization of payments. The report was submitted to the European Commission.

The Audit Certificate has confirmed that the procedures (division of powers, written procedures, checks prior to confirmation of projects and authorization of payments, liability and payment procedures, accounting procedures) complied with core accreditation criteria by all major aspects, were implemented properly and met the provisions of the MAFA in full. Moreover, the conclusions set forth in the Certificate confirmed that the internal control system and the internal control procedures were effective and implemented in practice, while the financial interests of the European Community were safeguarded adequately.

4.5.1.3 Strategic and annual audit plans of IAD

IAD has drawn a strategic audit plan for 2001-2003, which, however, lacks clarity and concrete nature. It should be noted that the strategic plan has undergone no updates since September 2002.

Analysis of strategic audit plan does not provide a sound basis to claim that the requirement of Article 14 (2.5) of Section A of the MAFA concerning the inspection of all major spheres, including units and services, within not more than three years' period, will be implemented.

While conducting the audit we came across difficulties in establishing a relation between the strategic audit plan for 2001-2003 and the action plan for 2003. The action plan for 2003 fails to provide a clear definition of works to be conducted by IAD. In addition, the audit procedures scheduled for 2003 failed to coincide with all audit procedures performed. Some audit procedures scheduled were not conducted during the year, whereas certain audit procedures that had not been outlined in the schedule, were carried out under respective assignments of the Director of the Agency.

The Agency arranged the strategic audit plan for 2004-2006, which the Director of the Agency approved on 30 December 2003. The plan outlines a summary of high-risk processes, which was considered for the planning of resources in possession of IAD. The strategic plan provided the guidelines for the audit plan of 2004. However, the action plan for 2004 fails to prescribe the audit procedures of SAPARD programme.

4.5.1.4 Other information related with Internal Audit Department

4.5.1.4.1 IT audit plan and abilities to perform IT audit

IAD has failed to draw a special IT audit plan for 2003. Moreover, the department does not employ any experts with the competence and professional skills required to conduct the audit of IT systems. The annual audit plan for 2004 provides for the procedures of IT systems' audit, however, it fails to specify the IT audit procedures and the experts to conduct thereof.

4.5.1.4.2 Staff training

IAD draws annual plans of staff training. The training plans for employees are arranged with consideration of work experience of each employee and the needs in improvement of professional skills. In 2003 experts took part in a great number of seminars and practical training. A total of 1,068 hours was devoted for training.

The training plan for 2004 provides for 1,640 hours of training related with the audit of Structural Funds.

4.5.1.4.3 Staff requirements, recruitment and staff retention

The requirements applied for IAD staff are defined in job profiles. All employees and managers of IAD have an academic degree. A newly appointed IAD Director, unit managers and three senior experts have obtained an internal auditor certificate issued by the Internal Auditors' Association of the Republic of Lithuania. Moreover, the Director and the Head of one unit are the members of International Institute of Internal Audit.

The assessment of internal audit at the Agency is carried out pursuant to the requirements of the Law on Public Service.

New job profiles were approved under a respective order of the Director of the Agency in August 2003. According to new job descriptions, senior experts, depending on their category, shall comply with a requirement to have a record of work in the sphere of audit or internal audit of at least two or one year.

Experts are hired following the procedure for the employment of public officers in effect in the Republic of Lithuania. In 2003 IAD employed 3 new officers, two of whom were hired irrespective of then valid requirement for the at least three-year record of work in the sphere of control.

IAD of the Agency does not implement any policy on retention of staff. The remuneration of IAD staff is not adequate, which leads to a significant risk of loss of experts that gain the required experience and improve their professional skills while with the Agency.

4.5.1.4.4 Post-audit activities

IAD draws the document, which outlines the findings and recommendations of internal auditors and identifies the unit in charge of implementation of the recommendations, thus establishing a platform for the monitoring of implementation of the recommendations. However, the document does not specify the terms established for the elimination of shortcomings. Moreover, IAD has drawn a document, which summarised the finding and recommendations of external auditors and the actions taken by the Agency in pursuit of elimination of shortcomings disclosed.

4.5.1.4.5 Reporting

The final audit reports of IAD were signed by IAD Director and submitted to the Director of the Agency and all relevant departments and units.

Our findings, conclusions and recommendations related with the internal audit function of the Agency are set forth in the Subsection 5.13 of this Report.

4.5.2 Internal Audit of National Fund Department of the Ministry of Finance

The National Fund Department of the Ministry of Finance of the Republic of Lithuania (hereinafter referred to as NFD) does not have either the Internal Audit Unit or the internal auditor. The function of internal audit at NFD is assumed by the Internal Audit Unit of the Ministry of Finance, which had three employees as at 31 December 2003. The matters related with the strategy of internal audit of NFD and the implementation thereof were considered with the manager of Internal Audit Unit of the Ministry of Finance.

4.5.2.1 Internal Audit activities in 2003

Considering the provisions of newly adopted Law on Internal Control and Internal Audit (10 December 2002, No. IX-1253), the Internal Audit Unit initiated and performed a review and updated the NFD internal audit manual for the SAPARD programme.

In 2003 5the Internal Audit Unit conducted the evaluation of effectiveness and efficiency of internal controls applied to the payments authorized by NFD and related with the administration of funds of EU SAPARD, ISPA and PHARE support programmes in the Republic of Lithuania. The audit procedures targeted the adherence of NFD to the provisions of Article 9 of Section A of the MAFA and observation of D-1 form, as set forth in the Section D of the MAFA, for the submission of quarterly Payment Claims for EC funds. Moreover, the internal audit procedures focused on evaluation of control measures applied by NFD to the Payment Claims submitted by the Agency. On 3 December 2003 the Internal Audit Unit issued a report No. 4, specifying that the control procedures applied by NFD to the Payment Claims of the SAPARD programme were adequate and compliant with the provisions of NFD work procedures' manual governing the control measures set forth for the Payment Claims within the framework of the SAPARD programme.

Furthermore, the abovementioned audit report outlined the following findings as concerns the inadequate documentation and implementation of unidentified control procedures:

- The titles of register of quarterly Payment Claims for EC funds and the check list were of too general nature as they failed to specify the Payment Claims the register and the check list were designated for;
- While inspecting the adequacy of Payment Claims of the SAPARD programme, the principal finance controller fills in the check list, which is reviewed by the second finance

controller later; however, the work procedures' manual of the National Fund has failed to outline the abovementioned control procedure for the SAPARD programme.

In 2003 the Internal Audit Unit of the Ministry of Finance did not conduct any other internal audit tasks related with the administration of the SAPARD programme.

4.5.2.2 Review of audit procedures performed by Internal Audit

We have conducted a review of audit procedures related with the administration of SAPARD funds and conducted by the Internal Audit Unit of the Ministry of Finance in 2003.

Due to insufficient number of employees only one audit related with the administration of SAPARD funds was conducted.

4.5.2.3 Internal audit plan for 2004

The internal audit plan of 2004 is related with the strategic plan drawn for the period of 2003-2007. In 2004 the Internal Audit Unit of the Ministry of Finance intends to conduct only one internal audit again. This time the audit procedures will focus on evaluation of internal control system in effect at the National Fund and drawing of recommendations on the boosting of efficiency of the internal control system and support to the implementation of operating objectives.

4.5.2.4 Other information related with internal audit

4.5.2.4.1 Strategic and annual audit plans

The Internal Audit Unit has arranged the strategic plan for 2003-2007, which, however, has not been approved during the audit.

4.5.2.4.2 Staff

While conducting the audit procedures, we reviewed a report on participation of officials of the Internal Audit Unit of the Ministry of Finance in training courses, seminars and meetings in 2003. In our opinion, the training of staff in the Internal Audit Unit has paid the adequate attention.

The employees of Internal Audit Unit of the Ministry of Finance take part in expert training in the spheres of internal audit and administration of EU support funds on regular basis.

4.5.2.4.3 Staff requirements, recruitment

The Internal Audit Unit employs the officials following the hiring procedure as set forth in the Law on Public Service of the Republic of Lithuania. The major requirements for candidates to vacancies at the Internal Audit Unit are the following:

- Higher economic education;
- Record of work in the sphere of internal audit;

- Knowledge of foreign languages.

In 2003 the Internal Audit Unit did not hire any new employees.

4.5.2.4.4 Post-audit activities

The Internal Audit Unit, following the procedures in effect, conducts an evaluation of implementation of the recommendations outlined during the audit in three months after the submission of report. The report of the Internal Audit Unit over the internal audit of activities of NFD in 2003 was submitted on 3 December 2003. Accordingly, the Internal Audit Unit had not produced a report on post-audit activities in 2003 in the course of our audit procedures.

We have reviewed a report on post-audit activities of the Internal Audit Unit, which is related with the report on audit of NFD activities in 2002. We have established that the major part of recommendations has been put through.

4.5.2.4.5 Reporting

Ministry of Finance internal audit reports are submitted to the Minister of Finance or the National Authorizing Officer.

4.6 NATIONAL FUND DEPARTMENT OF THE MINISTRY OF FINANCE

4.6.1 BACKGROUND

Following the provisions of Memorandum of Understanding, the Government of the Republic of Lithuania with its 29 April 1999 Resolution No. 498 Concerning the Establishment of National Fund at the Ministry of Finance for the Implementation of Support Programmes of the European Community in the Republic of Lithuania (*Žin*., 1999, No. 39-1233) charged the Ministry of Finance with the establishment of the National Fund. The National Fund was founded under the 10 May 1999 order No. 118 of the Ministry of Finance concerning the Establishment of National Fund at the Ministry of Finance. NFD is subordinate to the National Authorized Officer and acts as a Competent Institution.

NFD is headquartered at J.Tumo-Vaižganto Str. 8a/2, Vilnius, Republic of Lithuania. NFD employs a workforce of 12, with four officers charged with the financial control and accounting of SAPARD programme funds.

NFD is a structural unit of the Ministry of Finance. NFD has been established on the basis of the following structure:

- NFD Director;
- NFD Deputy Director in charge of Accounting Group;
- Accounting Group;

- Finance Control Group.

Being a Competent Institution, NFD fulfils the following functions:

- Grants and withdraws national accreditation of the Paying Agency;
- Draws draft laws concerning the financial assistance granted by the EU;
- Inspects the applications and reports submitted by executive and (or) paying agencies and submits thereof to the National Authorizing Officer for approval;
- Draws and submits applications to the European Community Commission concerning the funds of EU financial assistance;
- Transfers funds to the executive and (or) paying agencies according to their applications approved by the National Authorized Officer;
- Manages the accounting of funds of the EU financial assistance that have been received and transferred, and the SAPARD euro account;
- Provides the European Community Commission and the National Authorized Officer with information about the reports on utilization of funds of the EU financial support.

While conducting the audit we carried out certain audit procedures related with the SAPARD euro account, and the conclusions are set forth in the Subsection 7.3 of this Report.

4.6.2 DOCUMENT REVIEW AND COMPREHENSIVE TESTING

While conducting the audit, we performed the procedures on testing of internal control and independent audit procedures, which focused on the following written control procedures related with the administration of SAPARD funds at NFD:

- Submission of quarterly Payment Claims for payments from the EC;
- Submission of supplementary Payment Claim for EC funds;
- Transfer of funds from the EC;
- Evaluation of Agency's applications for Co-financing resources and transfer of funds;
- Evaluation of Agency's applications for EC funds and transfer of resources;
- Submission of Annual Declaration to the EC.

Moreover, we have evaluated the assurance of division of tasks on accounting of SAPARD funds and financial control.

In the course of audit procedures, we reviewed the following documents related with the activities of NFD:

- The NFD Work Procedures Manual for the SAPARD programme;
- NFD activity descriptions;
- Schemes of work procedures.

While conducting the abovementioned audit procedures, we reviewed the following documents:

- D-2 Annual Declaration of Account for the financial year 2003;
- NFD SAPARD balance sheet as at 31 December 2003;
- A plan of SAPARD accounts;
- NFD accounting registers related with the administration of SAPARD programme;
- Submission of Quarterly Payment Claims for Payments from the EC;
- Submission of Supplementary Payment Claim for Payments from the EC;
- D-1 Declaration of Expenditure and Payment Claims;
- AR-1 Payment Claims Register;
- LON-1 Letters of Notification of Payment Claims for SAPARD funds;
- TES-1 Checklists of Control of Payment Claim;
- AA 6 B Payment Claims for obtaining Co-financing funds;
- AR-2 Register of Request for Co-financing funds;
- AA 6 S Payment Claims for obtaining SAPARD funds;
- MPR-1 Register of Request for EU funds;
- TES-3 Checklists of Control of Request for funds from the SAPARD Agency to the National Fund;
- LON-2 Letters of Notification on Confirmation of Payment Claim for SAPARD funds;
- TES-2 Checklists for Control of the Requested and Received funds from EC;
- TES-4 Checklist for Control of Annual Declaration;
- Extract from the Agency's banking account at Hansabankas AB covering the period from 1 January 2003 till 31 December 2003;
- Banking account agreements;
- Regulations on management of depositors' accounts at the Bank of Lithuania;
- Payment orders;
- Statements of the Bank of Lithuania, dated 13 January 2003 and 15 January 2004, concerning the balances of SAPARD euro account, national funds account and zero balance account as at 31 December 2002 and as at 31 December 2003;
- A statement of the Bank of Lithuania, dated 19 January 2004, concerning the interest accrued in 2003 and the interest rate applied.

4.6.3 FINDINGS

Our findings related with the administration of SAPARD funds carried out by NFD are provided below.

4.6.3.1 Failure to arrange the procedures for the accounting and administration of debtor's arrears recovered

Intermediate finding

In 2003 the Agency recovered 38,786 LTL (11,234 EUR) in arrears accounted in the Agency's Debtors' Ledger. The Agency transferred to the SAPARD euro account the share of SAPARD programme funds in the amount of 29,089 LTL (8,425 EUR). However, the National Fund's Work Procedures Manual for SAPARD Programme fails to prescribe the procedures for the accounting and administration of Debtors' arrears recovered.

Risk

The function charged to NFD and related with the administration of received and transferred funds of EU financial assistance is executed inadequately.

Recommendation

We have recommended the NFD to update the National Fund's Work Procedures Manual for SAPARD Programme until 1 June 2004, prescribing the procedures for the accounting and administration of Debtors' arrears recovered.

NFD's actions and comments

This recommendation of the National Audit Office will be considered. In the National Fund's Work Procedures Manual for SAPARD Programme the procedures for the accounting and administration of Debtor's arrears recovered will be prescribed.

4.6.3.2 Untimely replacement of signature samples of Agency executives

Minor finding

After the replacement of the Director of the Agency, the Director of Finance and Accounting Department and the Head of Accounting and Reports Unit in October 2003, the executive finance controller of NFD compared the signatures of the Director of the Agency and the director of Finance Department with invalid samples of signatures, which the Agency provided on 2 May 2002.

Risk

NFD fails to comply with the work procedures prescribed.

Recommendation

We have recommended obtaining from the Agency a new list with samples of signatures in effect.

NFD's actions and comments

NFD was notified of the abovementioned incompliance during the audit, and on 19 December 2003 the Agency submitted a new list of signature samples in the statement No. BR6 – (3.41)-4925.

4.6.4 CONCLUSION

Except for the cases set forth in the findings, we believe that the specialists of NFD fulfilled the functions charged thereto adhering to the NFD work procedures essentially. Accordingly, the internal control procedures applied by NFD for the administration of SAPARD funds are theoretically sound and operate satisfactorily in practice.

5. RESULTS OF DETAILED TESTING

In 2003 four measures of SAPARD programme (I Investments in Agricultural Holdings, II Improving the Processing and Marketing of Agricultural and Fishery Products, III Development and Diversification of Economic Activities, Providing for Multiple Activities and Alternative Income, IV Improvement of Rural Infrastructure) were administered under identical procedures, therefore, the results of detailed testing conducted are outlined pursuant to the structural units of the Agency (functions thereof).

All Agency's functions related with the administration of the SAPARD programme (four measures) are attributable to the following Agency's departments and units:

- Control Department and regional units thereof;
- Rural Development Programmes Department;
- Finance and Accounting Department;
- Information Technology Department;
- Internal Audit Department.

The Support Measure VII Vocational Training was administered in cooperation with the Ministry of Agriculture. Accordingly, the results of detailed testing of this Support Measure are specified in the Subsection 5.11 of this Section.

The Project Selection Commission is not a regular structural unit of the Agency, however, it also takes an active part in the administration of the SAPARD programme. The results of detailed testing related with the activities of PSC are outlined in the Subsection 5.6 of the Report.

5.1 REGIONAL UNITS OF THE CONTROL DEPARTMENT

5.1.1 BACKGROUND

From 1 January 2003, former regional units of Rural Development Programmes were transformed into structural units of the Agency, i.e., Regional Units of the Control Department (hereinafter referred to as CDRU).

According to the operational manual of CDRU, Regional Units are assigned the following functions:

- To provide farmers and other persons concerned with information about the public support programmes for agriculture and rural development and the measures of SAPARD;
- To provide all persons concerned with a possibility to submit Applications and Payment Claims;

- To check the regularity of completion of Applications, and adequacy of information and documents submitted for the evaluation of projects;
- To check the regularity of completion of Payment Claims, and the adequacy of information and documents submitted for the evaluation of Payment Claims;
- To register and assign registration numbers to all Applications and Payment Claims that have been completed adequately;
- To conduct on-the-spot check of data outlined in the Application and the Payment Claim, to specify the facts established in the report on Application or Payment Claim check;
- At the request of the Agency, to ensure the collection and delivery of supplementary documents to the Agency;
- To manage and store all archive data related with the implementation of national support programmes for agriculture and rural development and the SAPARD measures, and ensure the confidentiality of such data.

The table 5.1 below specifies the number of employees at CDRU as at 31 December 2003 and the average number of Applications for SAPARD support per each CDRU employee in 2003.

Table 5.1

Number of CDRU employees as at 31 December 2003 and the average number of Applications per one employee in 2003

CDRU	Number of Applications received per year	Number of employees	Average number of Applications per one CDRU employee
Alytus	20	8	3
Kaunas	101	14	7
Klaipėda	27	10	3
Marijampolė	59	10	6
Panevėžys	84	14	6
Šiauliai	74	9	8
Tauragė	28	9	3
Telšiai	23	9	3
Utena	10	10	1
Vilnius	32	14	2
Total	***458***	***107***	

As at 31 December 2003 CDRU had 107 employees. It should be noted that the working load of CDRU employees is unequal. The major working load is borne by the employees of CDRU in Šiauliai and Kaunas, while the least – by the employees of Utena CDRU.

Following the operational manual of CDRU, the structure of the unit is the following:

- Head of the Unit;
- Chief specialist – secretary;
- Chief specialists.

5.1.2 DOCUMENTS REVIEWED AND DETAILED TESTING PERFORMED

We have conducted a review of Applications submitted for the SAPARD support according to CDRU. In 2003 the largest number of applications was submitted in the Kaunas and Panevėžys counties, while the average number of Applications was registered in the counties of Šiauliai and Marijampolė. The smallest number of Applications was registered in the county of Utena.

We have reviewed the following documents and reports related with the activities of regional units:

- Work description of Regional Units of the Control Department;
- Job profiles of various employees of Regional Units;
- Schemes of work procedures;
- Annual advance reports SRA-4 drawn by all Regional Units;
- Relevant working documents of IAD.

While testing the procedures of Application evaluation in the Regional Units, we reviewed the following CDRU documents incorporated in the Supervision Files of Project that have been approved and authorized, and have been sampled for testing:

- SRB l Application Review Checklists;
- SRB 2 Application Checklists;
- SRA 2 Lists of Application Evaluation and Administration Elements;
- SRA 3 Application Check-on-spot Reports;
- SRB 3 Application Check-on-spot Report Review Checklists.

While testing of procedures of evaluation of Payment Claims at Regional Units, we reviewed the following CDRU working documents, which were incorporated into the Payment Claims Files sampled for testing:

- MPR l Payment Claim Review Checklists;
- MPR 3 Payment Claim Auditorial Checklists;
- MPR 4 Payment Claim Checklists;
- MPR 5 Payment Claim Check-on-spot Reports;
- MPR 6 Payment Claim Check-on-spot Review Checklists.

While conducting the audit, we visited the Regional Units of the Control Department in Vilnius and Šiauliai, and took part in two on-the-spot checks of Applications for Support and two on-the spot checks of Payment Claims conducted by these units. Moreover, we monitored the control procedures applied at those units and reviewed the following work documents:

- Documents forwarded to the Agency and incorporated into the Supervision Files of Project sampled for testing;
- Document registration books:
  - SRŽ l Application Registration Book;
  - SRŽ 2 Payment Claim Registration Book;
  - SRŽ 3 Project Administration Book;
  - SRŽ 4 Document Shelving Book.

5.1.3 FINDINGS

Our findings related with the activities of CDRU concerning the collection of Applications and Payment Claims and their check are provided below.

5.1.3.1 Failure to perform a check of Payment Claim

Intermediate finding

A case was established when a CDRU submitted to the Agency the documents related to a repeatedly submitted Payment Claim (registered under a new number) without conducting all mandatory procedures prescribed in the work description of CDRU – i.e., neither documentary nor physical examination (on-the-spot check) of Payment Claim was conducted. Instead of results of the on-the-spot check of newly submitted Payment Claim, the Head of CDRU filled in the Payment Claim check lists on the basis of the on-the-spot check of Payment Claim that had returned for supplementing, and failed to clarify whether the reason, which earlier prompted the return of Payment Claim for supplementation, was eliminated, although the dates the two Payment Claims were submitted were 55 days apart.

Risk

Further evaluation of the Payment Claim poses a risk of adopting of an unfounded decision.

Recommendation

We recommend the management of the Agency to validate with documents the actions and decisions to be taken in certain circumstances where the fulfilment of procedures prescribed is ineffective.

Agency's comments and actions

The data specified in the first Payment Claim of the applicant were subjected to the on-the-spot check following the procedures set forth in the work description, while the documents filled in during the on-the-spot check were forwarded to the Agency. The Payment Claim mentioned in the finding of the National Audit Office was submitted to CDRU repeatedly without any supplementary documents and it declared the investments identical with the ones specified in the first Payment Claim. The data therein were subjected to the on-the-spot check under the first Payment Claim and the on-the-spot check led to the conclusion that the investments had been implemented in full; accordingly, the on-the-spot check had not been repeated. The head of CDRU has submitted his explanations over the situation.

All findings of the National Audit Office related with CDRU were considered by all Regional Units, and the Agency launched the measures to prevent any similar errors in future.

5.1.3.2 Inaccuracies in the Application Checklists and the Application Check-on-spot Reports

Intermediate finding

Cases established when CDRU experts completed the working documents on the on-the-spot check of Application for Support incorrectly:

- The Application was accompanied with a certificate of the public company of State Land and Other Real Estate Cadastre and Register, which specified that no documents to manifest the fitness of the building for use after reconstruction had been submitted, i.e., the object of support, which the support was applied for, had already been reconstructed. However, the remark of the register did not stir any suspicions and no relevant records had been made in the Application check list SRB2. In this case, the conclusion entered in the Application Check-on-spot Report and stating that 'the location of upcoming investments has been checked on-the-spot and the construction works have not been launched', is insufficient.
- Some Applications, which outlined the intentions to raise the sales, lacked adequate proofs on the markets for the sales of output, however, the specialists that conducted the check failed to evaluate that and to make respective records in the working documents.
- In several cases the specialists of CDRU answered the questions related with the applicant's education in the agricultural sphere in the affirmative, however, some Applications lacked copies of documents that could evidence thereof.

- In several cases the specialists of CDRU answered the questions related with the disposable land specified in the Application in the affirmative, although some Applications lacked documents that could evidence thereof.
- In several cases the CDRU specialists accepted from the applicant the following insufficient documents concerning the monetary funds in possession: bank extracts concerning the funds of the founder at the bank instead of the funds of the company, an extract from the minutes of meeting of the Banking Loan Committee instead of banking loan agreement, banking documents that rose doubts concerning the legality thereof.
- A case was established when a report on Application check was prepared in an untimely manner.

Risk

Applications, which are forwarded to the Agency for evaluation and which have been completed improperly, untimely or incompletely, may lead to unfounded decisions concerning the eligibility of planned investments for support and the compliance of the project with the general criteria of eligibility.

Recommendation

We recommend to supplement the CDRU work description with the evaluation of estimates of construction works within the investment projects via the hiring of independent experts or employing regular employees of relevant qualification.

Moreover, we recommend the management of the Agency to supplement the CDRU work description with an explicit definition of sources of financing and the documents to validate thereof.

Agency’s comments and actions

A review of other similar projects checked by the same CDRU and the working documents filled in during their checks has revealed no analogous non-compliances, which may lead us to the conclusion that these are technical errors that had no impact on the decision making. The managers of the Agency and the staff of Regional Units organize regular considerations of errors made with a view to avoid thereof in future.

5.1.3.3 Inaccuracies in the Payment Claim Checklists and the Payment Claim Check-on-spot Reports

Intermediate finding

Cases established when CDRU specialists completed the working documents on the on-the-spot check of Payment Claim incorrectly:

- Upon completion of check, the officers noted in the Payment Claim Check-on-spot Report that the data provided in the Payment Claim represented the facts, whereas the Payment Claim Checklist revealed a non-compliance between the scope of works performed and the estimate confirmed, as well as the performance of works that had not been coordinated with the Agency and failure to adhere to the terms and conditions of Support Contract signed.
- In several cases the specialists of CDRU answered in the affirmative to the questions related with improper insurance of investments specified in the Payment Claim.
- In one case the conclusion entered into the Payment Claim Check-on-spot Report failed to specify whether the data contained in the Payment Claim represented the facts.
- The Payment Claim Check-on-spot Review Report failed to provide answers to all questions.

Risk

Unfounded decisions over the eligibility of expenditure might be taken. Moreover, there is a risk of insufficient competence of CDRU employees.

Recommendation

The Agency was recommended to repeat the on-the-spot check of Payment Claim and evaluate whether the scope of works performed complied with the local estimate and the Support Contract signed.

We recommend to comply with the work procedures prescribed.

Agency’s comments and actions

With consideration of recommendations by the National Audit Office, the Agency repeated the on-the-spot check and disclosed non-compliances between the works performed and the estimate and Support Contract signed; moreover, the check revealed the works that had been conducted without prior coordination with the Agency. The Agency rejected this Payment Claim in 2004.

5.1.3.4 Failure to perform the check of payment claim in line with operational procedures prescribed

Intermediate finding

A case established when the specialist of CDRU, charged with the on-the-spot check of Payment Claim, failed to conduct a visual inspection and to document an object of support that had been acquired during the previous stages of implementation of the Support Contract, thus deviating from the procedures prescribed in the work description.

Risk

There is a risk that the beneficiary might have sold the assets acquired for the support funds or disposed the assets in any other manner.

Recommendations

We recommend to comply with the procedures prescribed for the on-the-spot check of Payment Claims.

Agency's comments and actions

The Agency repeated the on-the-spot check of the abovementioned Payment Claim, which led to a revelation that the beneficiary had neither sold nor disposed the equipment acquired under the first Payment Claim.

5.1.3.5 Failure to separate the functions of execution and review

Intermediate finding

A case established when a CDRU employee signed a completed Payment Claim Check-on-spot Report (MPR 5) as a person charged with the check and a person charged with review, which led to a failure to separate the functions of execution and review.

Risk

Failure to execute all control measures may lead to a failure to ensure high-quality check and adoption of inadequate decisions.

Recommendation

We recommend the management of the Agency to ensure in all cases that a person who has prepared the document is not charged with the review function.

Agency's comments and actions

Considering the recommendation of the National Audit Office, the Agency will adopt measures to avoid any similar non-compliances in future and to ensure the adequate separation of functions.

5.1.3.6 Insufficient operational supervision of specialists of the Regional Units of Control Department and document review

Intermediate finding

Considering the non-compliances observed in the working documents completed by specialists of CDRU and other findings related with the activities of CDRU, we have established that the Heads of CDRU fail to ensure adequate supervision of work and review of working documents completed.

Risk

Heads of CDRU fail to execute control procedures properly, and, accordingly, the effectiveness of internal control system of the Agency is not ensured.

Recommendation

We recommend Heads of CDRU to ensure adequate supervision and review and comply with the work procedures prescribed.

Agency's comments and actions

Working documents filled in by Heads of CDRU and specialists were reviewed at random, and all documents reviewed have been filled in following the work procedures prescribed and without any violations thereof; therefore, we may state that the Heads of CDRU ensure the adequate supervision and review of documents in principle, while the non-compliances disclosed by the National Audit Office are occasional and of non-systemic nature.

5.1.3.7 Registration of improperly completed Application for Support and Payment Claim

Minor finding

In several cases Application and Payment Claim registration numbers were also assigned to the Applications and Payment Claims that were not accompanied by all documents prescribed by procedures.

In one case incomplete set of copies of documents accompanying the Payment Claim were signed thus confirming their validity, which constitutes a deviation from the work procedures prescribed.

Moreover, we have established several cases when CDRU senior specialists-secretaries failed to answer all questions or filled in improper answers in Application Review Checklists and Payment Claim Review Checklists.

Risk

Control procedures applied by the Agency fail to ensure the registration of Applications or Payment Claims fully compliant with the requirements set for further administration thereof. Moreover, the Applications and Payment Claims that have been completed improperly might be forwarded to the Agency for evaluation.

Recommendation

Heads of CDRU should take a more attentive approach towards the control over the procedures for the registration of Applications and Payment Claims received.

To avoid any repeated submission of documents, we recommend to ensure the acceptance of first copies of invoices only alongside the Payment Claims.

Agency's comments and actions

A review of 30 Applications registered by Vilnius CDRU in 2003 was conducted, and it was established that all Applications had been registered following the procedures prescribed in the work description of CDRU, with all documents required submitted alongside the Applications; thus, we may state that the non-compliance mentioned in the findings of the National Audit Office does not constitute a systemic error and registration of Applications at regional units is performed in full compliance with procedures prescribed, accordingly, the Applications are submitted for evaluation and administration with all documents required. Only 4 out of 50 Payment Claims reviewed had been registered and assigned an authentic registration number amid the absence of some documents required.

5.1.3.8 Failure to submit three tenders although the value of prospective investments exceeded 10,000 EUR

Minor finding

In one case the Project File failed to comprise three commercial tenders for the compilation of business plan although the expenditure on the drawing of business plan exceeded 10,000 EUR. Instead of the above commercial tenders, a protocol was submitted stating that a review of bids over the drawing of business plans led to the selection of one company, which offered business plan compilation and consulting services that corresponded to the requirements of the applicant the most, and prompted the applicant to sign a respective contract with the above company. It should be noted that the abovementioned expenditure, while assessing the projects at RDPD, were dismissed as not eligible for reimbursement, however, both the first and the second evaluators dismissed the consulting over the drawing of business plans as ineligible for support due to another reason, i.e., the consulting over the matters of business plan arrangement was treated as operating costs.

Risk

The primary evaluation of Application might have been conducted improperly.

Agency's comments and actions

Fifteen Applications of CDRU in which the abovementioned non-compliance of registered Applications was identified, were inspected. The investments into the drawing of business plan and consultations in four Applications exceeded the amount of 10,000 EUR. It has been established that commercial tenders were submitted with all Applications, except for the case disclosed by the National Audit Office.

5.1.3.9 Failure to assure continuity of project entitled for support

Minor finding

The instruction on activities over the on-the-spot check of Application prescribes that the specialist charged with the on-the-spot check has to get assurance that the land use dealings shall be concluded for the period not shorter than the term set for the implementation of investment actions set forth in the project. Evaluation of continuity of one of business conditions for the period of project implementation only constitutes an essential objection to the general selection criterion established in the Section 6.1 of LARDP and stating that all actions are suitable provided that the investment project outlines the intentions to refrain from any changes in the nature of activities, project implementation location and terms, and the owner of assets acquired with the support funds within at least five years from the last payment. Moreover, the provisions of Article 4 of Section B of the MAFA have been violated.

Risk

The projects under the Measure I will fail to comply with the economic indices predicted in the business plan amid failure to ensure the continuity of business conditions for a five-year period. Moreover, the objectives of LARDP might be missed. Furthermore, there is a risk of approval of projects that do not correspond to the general criteria of eligibility.

Recommendation

We have recommended the Agency’s management to ensure the adherence to the general criteria of eligibility while evaluating the Applications of the last call.

Moreover, we have recommended the Agency’s management to consider this finding while drafting the CDRU work procedures for the upcoming EU support funds.

Agency’s comments and actions

According to preliminary projections, the Support Contract will be extended with a requirement to provide the land lease contract with the first Payment Claim, as required per LARDP.

5.1.4 CONCLUSION

Except for the cases identified in the findings, we believe that the specialists of CDRU execute their functions essentially adhering to the regulations prescribed by the Agency and the requirements of the Commission Guidelines No. 9 and 10. Thus, the internal controls procedures applied to the function of on-the-spot check are theoretically sound and operate satisfactorily in practice.

5.2 CONTROL DEPARTMENT

5.2.1 BACKGROUND

Control Department (hereinafter referred to as CD) has been established at the headquarters of the Agency. As at 31 December 2003, the department (central office) employed a workforce of 10. The main task of CD is to ensure proper control over the quality of on-the-spot checks of Applications for Support and Payment Claims. In pursuit of this task, CD performs the following functions:

- Checks and controls:
  - the purposeful use of the funds of the budget of the Republic of Lithuania and the SAPARD;
  - the data presented in the applications and investment projects submitted by the applicants;
  - implementation of investment projects carried out by the beneficiaries by checks on spot;
  - the efficiency of operations of Regional Units of the Control Department responsible for the execution of national support and SAPARD programmes, and the adequacy of on-the-spot checks conducted by those units;
- Identifies and selects the objects to be subjected for checks via the analysis of risk factors;
- Carries out preventive measures against 'bad support';
- Exerts control over the implementation of project within the framework of contract signed with the beneficiary;
- Issues operational manual and methodological guidelines to the Regional Units of the Control Department concerning the matters of checks;
- Draws reports on control and checks performed;
- Provides analytical and statistical information to the management of the Agency;
- Collects, accumulates, systematizes and analyses the information about the checks performed;
- Administers the list of unfair applicants;
- Organizes and manages the department's record keeping work following the regulations of the Agency, ensures proper storage of documents, transfers the control conclusions and reports to the archive following the procedures prescribed;
- Fulfils other assignments by the Director of the Agency related with physical check of data and documents.

5.2.2 DOCUMENTS REVIEWED AND DETAILED TESTING PERFORMED

While conducting the audit, we reviewed the following documents related with the execution of functions by the CD:

- CD work description;
- CD regulations;
- Job profiles for various CD employees;
- Schemes of work procedures.

We reviewed and evaluated the CD work description and checked the compliance thereof with the requirements of Guideline No. 10.

In pursuit of establishing of compliance between the control system in effect at the CD with the control procedures prescribed in the work description of the department, we reviewed the following project working documents, incorporated into Project Supervision Files and sampled for testing:

- KKB1 Application Control Checklist;
- KKM1 Payment Claim Control Checklist;
- KKA1 Application Control Check-on-spot Report;
- KKM2 Payment Claim Control Check-on-spot Report;
- An Implemented Project Checklist;
- An Implemented Project Control Check-on-spot Report;
- MPR 8 Inquired Checklist;
- MPR 9 Inquired Check-on-spot Report.

Moreover, we reviewed the following registration logs completed by the CD and the reports administered by the department:

- KKŽ Check-on-spot Registration Book;
- KUŽ Inquired Checks-on-spot Registration and Performance Book;
- KNS List of unfair applicants;
- KKS The List of Faults of the Control Department Regional Unit Staff;
- KKA3S/KMA4S Quarterly and Annual Progress Report of the Specialist of the Control Quality Unit of the Control Department;
- SRA 4 A report on works performed ;
- SRA 5 Summary of Filed Applications of Control Department Regional Units;
- MPR7 Summaries of Filed Payment Claims of Control Department Regional Units.

5.2.3 FINDINGS

Findings related with the execution of functions of CD are stated below:

5.2.3.1 Improper execution of tasks of on-the-spot check and inspection

Intermediate finding

In response to an anonymous complaint concerning the project implemented by an applicant, former Director of the Agency issued the order No. Nr. BR1-162 on 23 June 2003 to establish a commission of representatives of the Control Department, Finance and Accounting Department and the SAPARD Department, and initiated an inspection in order to establish whether the investments were executed in adherence to the terms and conditions of Support Contract.

The National Audit Office has established that the inspection by the above commission had not been registered in any check registration book, which constitutes a violation of provisions of Article 14 (2.2.4) of Section A of the MAFA, which stipulates that all checks to be performed shall be enumerated in the list of checks. It should be noted that the CD work description fails to prescribe any procedures related with the registration of checks, initiated under a respective order of the Director of the Agency, in relevant registration books.

Following the Inquired Checklist dated 24 June 2003 and the report drawn by the Agency's commission, a check was performed to establish the compliance of investment execution with the terms and conditions of contracts concluded between the Agency and the applicant (the inspection was carried out under the first two Payment Claims, i.e., M10020010 and M10030013). The following conclusions were made:

- Equipment at the farms was new and had already been arranged;
- construction and reconstruction works had been finalized;
- visual inspection did not offer any possibilities to identify the newness and the quantity of materials used for the construction and reconstruction works.

A review of report and conclusions of commission has led to the conclusion that the commission failed to analyse the documents related with the implementation of investments, contenting itself with visual inspection of investments executed by the beneficiary instead. Thus, the commission failed to fulfil the assignment of the Director of the Agency. Moreover, the commission failed to provide an opinion concerning the execution of investments in adherence to the terms and conditions of Support Contract.

Following the conclusions of the abovementioned commission, the Payment Claim No. M10030013 was satisfied in full.

Pursuant to the Request of Finance and Accounting Department on the on-the-spot check, dated 6 August 2003, on 12 August 2003 the CD conducted an Inquired on-the-spot check to evaluate the compliance of investments implemented with the terms and conditions of Support Contract, and the specification of works performed and the materials used in the deeds of works.

The check has led to the following findings:

- the beneficiary failed to provide any documents on the purchase of materials used for the reconstruction of farm complex, moreover, the beneficiary did not submit the construction works journal and the deeds on hidden works;
- non-compliances between the quantity of construction materials as evaluated during the check, actually utilized and specified in the estimate;
- some materials utilized within the framework of investments were far from new (bricks, radiators), i.e., the quality thereof failed to comply with the quality specified in the documents submitted alongside the Payment Claim.

It should be noted that the objectives of inspection and Inquired check were identical, whereas the conclusions were contradictory. However, the Agency failed to take any measures to determine the conclusions that represented true facts.

Risk

The check unidentified in the Agency's procedures has not been conducted properly, meanwhile, the payments executed under the check have not been validated by adequate checks (Article 14 (2.2.4) of Section A of the MAFA). Thus, following the conclusions of inadequate check, the experts of PCU may adopt unfounded decisions over the eligibility of Payment Claim.

Recommendation

We recommend the Agency to initiate an official investigation to determine the causes of non-compliances (errors) made in the course of checks mentioned above.

In order to avoid any similar errors in future, the Director of the Agency should initiate the control checks for the highest risk projects, as established in the work description for the CD.

Agency's comments and actions

The Director of the Agency issued an order to establish a commission to tackle the complaint; the commission was compiled of representatives of various units of the Agency, thus, the check was not registered in any CD check registration books, as the CD procedures did not prescribe any specifications for the above registrations. The commission performed a visual inspection of conduct of works in line with the contract concluded with the applicant.

Non-compliances were disclosed upon detailed check of works performed, materials utilized and the equipment arranged, i.e., upon the execution of Inquired check. Upon evaluation of non-compliances disclosed during the Inquired check, the Agency refused to satisfy a part of reimbursement as requested by the applicant.

All findings of the National Audit Office, where related with the CD, were considered with the staff of the department, and measures were taken to ensure the prevention of the abovementioned errors in future.

5.2.3.2 Control check of Payment Claim carried out after the execution of payment

Intermediate finding

In several cases control checks of Payment Claims were conducted and the reports were drawn after the execution of payments for those Payment Claims. The documents on control checks of these Payment Claims have been put into files of Payment Claims paid.

Risk

While evaluating a following Payment Claim, the specialists of PCU may not be aware of conclusions specified in the report on control check; accordingly, the violations identified during the control check will not be considered, and ineligible expenditures might be paid up unfoundedly, leading to a violation of provisions of Article 14 (2.2.4) of Section A of the MAFA concerning the conduct of check prior to the payment.

Recommendation

The management of the Agency shall ensure the conduct of on-the-spot check of Payment Claim in line with the provisions of the MAFA.

Agency’s comments and actions

Pursuant to the work description of CD, the core essence of procedure on the control on-the-spot check of Application is the inspection whether the data and facts specified in the Application represent true facts, whether the specialists of CDRU conducted a proper on-the-spot check of Application and whether precautions have been taken to prevent any potential cases of fraud and dishonesty.

CD submits the lists of scheduled control checks of Payment Claims to the Administration and Analysis Unit and the Payment Unit once in a quarter, which shall ensure an adequate utilization of SAPARD funds.

5.2.3.3 Inquired on-the-spot checks carried out instead of control on-the-spot checks assigned

Intermediate finding

In two cases inquired on-the-spot checks (focused on a particular issue) were conducted instead of control on-the-spot checks (general examination), in derogation of assignment by the Director of the Agency.

Risk

Inadequate execution of tasks may lead to the making of irregular decisions concerning the settlement of the expenditure.

Recommendation

We recommend the Director of CD to assure proper control over the execution of tasks assigned.

Agency's comments and actions

Recommendations of the National Audit Office will be considered.

5.2.3.4 Improper administration of List of Unfair Applicants

Intermediate finding

The working procedures as applied by the Agency fail to ensure the particularity of the List of Unfair Applicants. Applicants in default on the terms and conditions of Support Contract, as well as the applicants that failed to ensure adequate implementation of terms and conditions of Contracts have not been entered into the abovementioned list, as the RDPD failed to follow the procedures prescribed and to report the abovementioned information to the CD. The information mentioned above was provided under a respective recommendation of the National Audit Office.

An employee of Control Department in charge of administration of the List of Unfair Applicants failed to notify the CD manager that the CDRU, the Rural Development Programmes Department, the Finance and Accounting Department had not provided the respective information.

Moreover, the National Audit Office has established that the List of Unfair Applicants had not been submitted to the Director of the Agency, the Rural Development Programmes Department, the Finance and Accounting Department and CDRU regularly (once per month). Moreover, no analysis of the list had been performed and no quarterly/annual report prescribed in the work description had been drawn.

Risk

Failure to ensure the completeness of information about all unfair applicants may lead to the making of unfounded decisions concerning the eligibility of projects for support.

Recommendation

We recommend to update the work description of CD with a provision stating that an officer in charge of administration of the List of Unfair Applicants should ensure regular updating of the abovementioned list and submission thereof to all Agency's units concerned, and to notify the unit manager about each and any case where relevant information is not provided.

Agency's comments and actions

Considering the findings established by the National Audit Office during the audit procedures, the List of Unfair Applicants was updated on 4 December 2003, expanding the list with the names of applicants, the Support Contracts with whom had been terminated under a respective initiative of the Agency, as well as with the names of applicants, the Support Contracts with whom would be terminated.

Copies of List of Unfair Applicants have been forwarded to all structural units as specified in the work description of CD.

5.2.3.5 Inaccuracies in Application Control Checklists and Application Control Check-on-spot Reports

Intermediate finding

While reviewing the Application Control Checklists and Application Control Check-on-spot Reports we established that some questions included in those checklists had been answered inadequately. Moreover, the employee in charge of drafting of Application Control Check-on-spot Reports did not make sure that the check list was filled in properly.

Risk

CD may not ensure the adherence with the procedures prescribed.

Recommendation

We recommend the Director of CD to take a more careful approach towards the evaluation of working documents of subordinates and to ensure the adherence with the procedures prescribed.

Agency's comments and actions

The CD management initiated additional checks for the working documents of staff members, who completed the working documents with errors established. No inconsistencies have been revealed.

5.2.3.6 Selection of planned control check of the projects was inconsistent with the methodology

Intermediate finding

In some cases projects have been selected for scheduled control check in derogation of methodology prescribed for the selection of projects for scheduled control check, i.e., the risk category has been selected improperly and incomprehensive information about the completed projects f has been used.

Risk

Projects selected for control checks may not be the ones posing the highest risk.

Recommendation

We recommend the Director of the Control Department to take measures to ensure the implementation of functions assigned to the department in adherence to the procedures prescribed.

Agency's comments and actions

Considering the findings established by the National Audit Office, the CD initiated a re-selection via the application of selection method prescribed in the work procedures. On-the-spot checks of newly selected projects did not lead to the revelation of any inconsistencies.

5.2.3.7 Failure to observe the principle of segregation of duties

Minor finding

In one case the department failed to adhere to the procedure concerning the completion of working documents related with the customized check. Analysis of documents provided (Inquired Check-on-spot Report and Inquired Check-on-spot Checklist) has led to the conclusion that a person charged with the arrangement of report, drew up and signed the check list of customized inspection, i.e., performed the procedures that had not been prescribed.

Risk

Failure of CD specialists to follow the procedures prescribed may worsen the quality of check thus leading to the adoption of inadequate decisions.

Recommendation

We recommend the Director of CD to develop a more careful approach towards evaluation of working documents of subordinates and to ensure the adherence to the procedures prescribed.

Agency's actions

The Agency has reviewed several other documents on control checks performed by the same staff members and has not revealed any similar inadequacies.

5.2.3.8 Information about land in possession that has not been collated with the Land and Other Real Estate Database

Minor finding

The work procedures prescribed for the CD stipulate that the reports on control on-the-spot checks should provide information evidencing that the data submitted by the applicant had been collated with the records in the database of Land and Other Real Estate Cadastre and Register. However, in some cases the reports on the on-the-spot checks failed to identify that, which leads to a conclusion that the officer who has drawn up the report has not checked the abovementioned information.

Risk

Reports on control on-the-spot check may be completed in non-compliance with the procedures prescribed, and the Director of CD may fail to ensure adequate supervision over the activities of subordinates.

Recommendation

We recommend Director of CD to develop a more careful approach towards the control of activities of subordinates and to ensure the adherence to the procedures prescribed.

Agency's comments and actions

Considering the findings established by the National Audit Office, the issue has been tackled at a CD meeting and the employees have been obliged to ensure a possibility to collate each project subjected to inspection with the database of public establishment Registrų Centras in each case. In addition, the Agency has updated the working procedures of the CD, expanding thereof with a requirement to collate the data of project under inspection with the data of the public establishment Registrų Centras provided that the officers who have conducted the check come across certain ambiguities over the certificates issued by the public establishment Registrų Centras or the certificate submitted is not dated with current year.

5.2.4 CONCLUSION

Except for the cases identified in the findings, we believe that the specialists of CD execute their functions essentially adhering to the regulations prescribed by the Agency and the requirements of the Commission Guidelines No. 9 and 10. Thus, the internal controls procedures applied to the function of control are theoretically sound and operate satisfactorily in practice.

5.3 RURAL DEVELOPMENT PROGRAMMES DEPARTMENT

Rural Development Programmes Department (hereinafter referred to as RDPD) is composed of 5 structural units, while the functions on administration of SAPARD programme are implemented by 2 units, i.e., the Project Evaluation Unit and the Administration and Analysis Unit. These units are in direct subordination to the Director of Rural Development Programmes Department, who shall organize and coordinate the activities of Rural Development Programmes Department, shall bear responsibility for the execution of functions assigned to the department and ensure implementation of measures of the SAPARD programme.

The main tasks of RDPD as related with administration of SAPARD are the following:

- To ensure the implementation of SAPARD measures;
- To ensure preparation of all methodical materials necessary for all potential beneficiaries;
- To ensure the qualified examination and evaluation of the filed applications for the support;
- To ensure qualified administration of the projects being implemented and of the completed projects;
- To ensure the collection of information about the implementation of SAPARD in Lithuania and submission of the said information to all the organisations concerned.

The main objectives of RDPD are the following:

- Promotion of economic agricultural and rural development via the administration of SAPARD support funds;
- Efforts to ensure timely implementation of SAPARD projects and allocation of funds used for the proper purpose thereof.

5.4 Project Evaluation Unit of Rural Development Programmes Department

5.4.1 Background

In pursuit of implementation of RDPD objectives, the Project Evaluation Unit (hereinafter referred to as PEU) has been assigned with the following functions:

- To arrange, fill in and amend forms of Applications for Support, recommendations on drawing of business plans and descriptions of priority measures;
- To collect and register Applications for Support;
- To check the regularity of completed Applications for Support and the sufficiency of data and documents submitted for the evaluation of projects;
- To initiate the collection of missing data and documents;
- To carry out qualified evaluation of projects based on the criteria of eligibility and priority and following the provisions set forth in project evaluation methodology, work procedures and instructions approved;
- To restrict the financing of expenditures with the Community funds under the SAPARD programme with cases where the expenditures comply with the provisions of Multi-Annual Financing Agreement and where the SAPARD support is allocated in compliance with good financial management principles, and the principles of economy and cost-effectiveness in particular;
- To initiate on-the-spot check of data provided in Applications;

- Where necessary, to apply to various institutions, organizations or other persons to collect additional data and documents concerning the Application for Support submitted;
- To specify the facts and conclusions drawn during the examination and evaluation of Application for Support in a Project Evaluation Report;
- To take part in the meetings of Project Selection Commission, to present projects and provide explanations over the issues of concern to the Project Selection Commission;
- In the event of negative decision, to notify the applicant about the refusal to grant support for the implementation of project, offering a motivated explanation and specifying the main reasons behind the rejection of Application for Support;
- Where necessary, to apply to Lithuania's and foreign experts concerning the provision of qualified consultations and essential information.

As at 31 December 2003, PEU, including the Head of the Unit, employed a workforce of 15.

In 2003, compared with 2002, the number of Applications for Support surged by 42 percent. New PEU staff members where charged with tasks related with the arrangement of procedures for the administration of future EU support funds.

Following the work description of RDPD, the structure of PEU was the following:

- Head of the unit directly responsible for the coordination and organization of the unit's activities;
- Chief specialists – evaluators, divided according to the evaluator's rights among the Support Measures of SAPARD programme and responsible for qualified inspection and evaluation of applications and drawing of Project Evaluation Reports;
- Chief specialist – secretary in charge of review and registration of applications, systematisation of data and documents and assistance to the Project Selection Commission related with the activities thereof.

5.4.2 Document Review and Detailed Testing

While conducting the audit procedures, we reviewed the following PEU documents:

- RDPD PEU work description;
- Various PEU job profiles;
- Schemes of work procedures;
- Audit reports drawn by the Internal Audit Department and related with the unit.

We have conducted an inspection of procedures applied by PEU for the acceptance, registration and evaluation of applications, provision of information to the Project Selection commission and generation of negative response. Moreover, we have evaluated the administration of projects that have been dismissed as ineligible, but, upon a relevant assignment of the Director of the Agency have been subjected to re-evaluation and were announced eligible for support (the procedures of appeal have been determined after the National Audit Office has issued relevant recommendations only).

Aiming at making sure of adequate implementation of control procedures set forth in the work description of the unit, we have reviewed the following working documents put into the Project Supervision Files sampled for testing:

- SRA 2 Lists of Application Evaluation and Administration Elements;
- SB l Application Review Checklists;
- SA l Inquiries for Collecting Additional Documents;
- SA 2 Inquiries for the Check-on-spot;
- SB 2 a/f Project Evaluation Checklists;
- SA 3 a/f Project Evaluation Reports;
- SB 3 Project Evaluation Report Checklists.
- Moreover, we have conducted a review of the following working documents related with the activities of the unit:
- SA 4 Summaries of Evaluated Applications;
- SB 4 Collection of information required to the Project Selection Commission Checklists;
- SA 5 Quarterly (annual) Reports on activities of Project Evaluation Unit.

Furthermore, we have reviewed the following document Registration (Accounting) book filled in at the Unit:

- SŽ l Registration (Accounting) Book of Applications.

5.4.3 FINDINGS

Findings related with the execution of project evaluation functions performed by PEU are stated below.

5.4.3.1 Artificial splitting of project

Major finding

While conducting the audit, we identified three applications (Paukščių Ferma UAB P14020004, Mažieji Kalakutai UAB P14020005, Kalakutų Ūkis UAB P14020006), which were related with the development of turkey farms and were submitted simultaneously, however, we established an interrelation between the applications considering the following:

- All three projects are implemented at a single cadastre location;

- The companies of all three applicants were established on the same day;
- Two of three applicants are registered at the same address;
- Business plans of two applicants are identical, while the investments scheduled are identical as well;
- All three applicants take part in a single common turkey growing system;
- The manufacturing scheme specified in the business plan has revealed that all three applicants conduct a single project (operate a single fodder shop, deliver the products to the same turkey slaughterhouse, etc.);
- Founders of two applicants are related parties (farther and son);
- Equipment applied for support in all three projects was supplied by the same foreign company (the contracts with which were signed on the same day). The works on equipment installation and construction will be carried out by the same Lithuanian company;
- Accounting of abovementioned applicants was managed by the same chief financier;
- Support Contracts were signed on the same day;

The Director of all three applicants was the same person during the period of implementation of the projects.

It should be noted that the same legal person became the sole shareholder of all three applicants after the signing of Support Contract. These findings lead to a conclusion that planned investments may have been split into three several projects artificially (the total amount of support is 3.48 million LTL) in order to get the amount of support exceeding the maximum level of support (1.29 million LTL) as prescribed under the LARDP.

LARDP identifies possible applicants, however, it does not establish any restrictions for interrelated economic entities, which submit several projects and may get the support exceeding the maximum support level prescribed for a certain Support Measure.

Risk

SAPARD support funds are of limited nature; therefore an insignificant part of potential beneficiaries may only be able to use the SAPARD support.

Applicants, aspiring to get the support exceeding the maximum support level prescribed by LARDP for a particular sector, may establish separate legal entities and split a single project artificially into three different projects.

Recommendation

Considering the risks, we recommend the Agency to take adequate measures (to initiate respective supplementation of programme documents, etc.) to expand the ranks of beneficiaries of the SAPARD and other EU support funds.

Agency's comments

The Agency shall evaluate the Applications for SAPARD support pursuant to the provisions of LARDP that define the criteria of eligibility and priority, the amount of support, as well as the potential beneficiaries and their status. LARDP prescribes that the beneficiaries under the Measure I may be farmers, agricultural companies, cooperative societies and other companies. In this case the evaluators in charge of evaluation of the abovementioned projects have established that the legal entities concerned were controlled by different owners, were the economic entities registered pursuant to the procedures prescribed by the legislation in effect in the Republic of Lithuania, able to operate independently, implement different projects, manage several manufacturing platforms, staff, the financing of projects was earmarked from personal resources of owners and banking funds, etc. The Agency could adopt another decision provided that the regulations of LARDP, prescribing the requirement for beneficiaries, were amended respectively. We would like to remind that the provisions of LARDP, which restricted a possibility to use the SAPARD support more than once in three years, were amended in November 2002. The restrictions have been eliminated by now, therefore, artificial splitting of projects is senseless.

5.4.3.2 Adherence to non-confirmed work description for project evaluation

Intermediate finding

The specialists of PEU shall complete the Project Evaluation Checklist (SB2) following the methodology of project evaluation, which prescribes the procedures for the evaluation of priority criteria and project economic indices, and the job instruction, which specify the circumstances under which the project's compliance with the criteria of eligibility may be approved. The availability of these two internal documents is prescribed by the work description of PEU and the provisions of the MAFA. Project evaluation methodology was approved with the work description of PEU simultaneously. However, the job instruction available at the Agency during the audit period was of recommendatory nature, as it had not been confirmed under a respective order of the Director of the Agency and was non-mandatory. This, however, constituted derogation from the provisions of Article 14 (2.2.1), 14 (2.2.3) and 14 (2.3.6) of Section A of Appendix to the MAFA and the procedures prescribed in the work description of PEU.

Risk

Project evaluator may pass a biased decision concerning the compliance of project with the criteria of eligibility. The procedures applied by the Agency for the evaluation of projects are not comprehensive enough, which may prevent the adherence to the provisions of the MAFA, and the work procedures of PEU, including the procedures related with adequate review and supervision.

Recommendation

The National Audit Office recommended the management of the Agency to arrange and confirm job instructions on evaluation of projects for each Support Measure.

Agency's comments and actions

The Agency arranged job instructions that were supplemented and specified respectively and entered into the work description of RDPD under the order No. BR1-263 issued by the Director of the Agency on 28 November 2003.

5.4.3.3 Insufficient assurance of funding sources

Intermediate finding

The procedures applied by the Agency for the evaluation of projects fail to oblige the evaluators to make sure whether the sources of financing specified in the business plan are substantiated with adequate and relevant documents.

While conducting the audit, we established the following cases of insufficient assurance of sources of financing, which the Agency failed to evaluate properly while making a decision concerning the granting of SAPARD support:

- The applicant assured the monetary funds available with the following:
    - Bank extracts of company's founder instead of his company;
    - Residential income and property statement;
    - Prospective raising of authorized capital;
    - An extract from the minutes of meeting of the banking loan committee instead of banking loan agreement;
    - Banking documents raising doubts concerning the legality thereof.

Risk

Financing specified in the project may be unfounded and insufficient, therefore, the project may not be implemented in full, and a part of SAPARD funds assigned may not be recovered. Accordingly, the Agency may fail to achieve the objectives under the LARDP.

Recommendation

We recommend the evaluators to develop a more careful approach towards the examination of documents related with the applicants' sources of financing.

We recommend the management of the Agency to supplement the work description of PEU with provisions prescribing an explicit definition of sources of financing and externally confirmed documents to validate the sources.

Agency's comments and actions

On 12 February 2003 the Director of the Agency issued an order No. BR1-22 to supplement the working documents (SB2a/f), which prescribed to consider the substantiation of funds earmarked for project financing whenever evaluating the project's compliance with the criterion of eligibility under the economic viability indices. Moreover, on 28 November 2003 the Director of the Agency issued an order No. BR1-263 to endorse the job instructions, which specified the documents evidencing the substantiation of project financing.

5.4.3.4 Unfounded assignment of priority points

Intermediate finding

While conducting the audit, we established several cases where the project evaluation assigned the priority points unfoundedly:

- In one case the priority points were assigned to a slaughterhouse construction project under inadequate documents that evidenced the ability to purchase a larger quantity of raw materials from farmers or other producers of agricultural products. The points were assigned taking into consideration that the SAPARD Support Contract with the abovementioned applicant was signed earlier, compared with other meat processing companies, which got less priority points. While conducting the audit, the Financial Crime Investigation Service established that the contracts on purchase and sale of livestock, which were submitted to substantiate the project, had been forged, and the indices of manufacturing capacities of the slaughterhouse, which were based on forged contracts on purchase and sale of livestock, had been incorrect.
- In one case the priority points were assigned for available net funds, however, the applicant's documents concerning the abovementioned funds had not been confirmed externally.
- In one case the priority points were assigned for available private funds, however, the transactions on transfer thereof to the beneficiary raises doubts concerning the legality of those resources.
- Some points in the priority score are assigned for private (non-borrowed) funds, however, in one case priority points were assigned for borrowed monetary resources.
- In one case the land registration documents identified the site of project implementation as a rural area, however, in fact the land lot is located at the town boundary (at a distance of 100 metres from the existent manufacturing facilities of the applicant, which are located on the official territory of the town). In our opinion, the project operations will involve the

workforce, infrastructure, etc. of the town, which means, that this project will not create any real added value for rural development. Project evaluator failed to assess all circumstances and assigned the priority points for the implementation of project in a rural area.

- The number of contracts, which was enclosed by the applicant to the Application and signed with economic entities that took part in the project under the strategy approved, was below the number of contracts specified in the business plan. Both project evaluators failed to identify this irregularity and assign the priority points under the data provided in the business plan only.

This, the system of assignment of priority points in effect at the Agency is not effective.

Risk

Control procedures applied by the Agency fail to prescribe the evaluation of legality and authenticity of documents and data provided in the business plan. Thus, following the priority points that had been assigned by the evaluator inadequately, the Project Selection Commission and the Director of the Agency may approve unfounded decisions concerning the eligibility of project.

Recommendation

We recommend the management of the Agency to establish procedures to reduce the risks related with the legality and authenticity of data provided in the applicants' business plans and other applicants' documents, and to endorse respective supplementations to the work description of PEU.

Moreover, we recommend expanding the work procedures with provisions that would enable to establish real compliance of project with various requirements and criteria.

Agency's comments and actions

Responsibility for the authenticity of data provided to the Agency is borne by the applicant. Any forgery of documents or conduct of illegal financial transactions results in criminal proceedings, as prescribed by the legislation in effect in the Republic of Lithuania. The Agency, within the extent of its resources, evaluates the authenticity and reality of data pursuant to the procedures prescribed and notifies the Financial Crime Investigation Service (hereinafter referred to as FCIS) about the revelation of or suspicions concerning any of abovementioned deeds. However, we would like to note that the functions of detection and prevention of such deeds have been assigned to other structures.

The criteria of eligibility and priority are established in the LARDP, and, while evaluating the projects, the Agency shall make unbiased decisions predetermined by the regulations of the body. The points for priority criteria is assigned pursuant to information provided in the Application and documents enclosed thereto. We agree that in some cases the compliance with priority criteria may be seen as formal, however, the Agency shall adhere to the provisions of valid legislative acts that govern specific matters.

5.4.3.5 Criteria of eligibility applied for the project contradict the purpose of the project

Intermediate finding

In one case the project was approved as eligible under the Priority Sector IV Basic Services and Other Activities Promoting Income for the Rural Residents of Measure III Development and Diversification of Economic Activities Providing for Multiple Activities and Alternative Income of the LARDP. However, the business plan of the project targeted rural tourism, which is eligible for support under Sector II of Measure II. SAPARD support was requested for the purchase of new installations and mechanisms designated for recreation and leisure, catering of tourists; reconstruction of recreation and catering facilities for holidaymakers. Sector IV of Measure III does not authorize the reimbursement of abovementioned investments. This irregularity, however, has not been evaluated at any stage of project evaluation.

It should be noted that this project would not be funded under the Sector II of Measure II as it would fail to comply with the criteria of eligibility.

Risk

Failure of PEU manager to ensure adequate control over the evaluation of projects may result in an inadequate decision of Agency concerning the granting of SAPARD support.

Recommendation

In the event of any doubts concerning the compliance of project with the criteria of eligibility, we recommend that prior to the approval of the project the Agency should address competent institutions for explanations whether the project may be financed under the sector of SAPARD programme measure specified.

Agency's comments and actions

The project was evaluated following the provisions of LARDP. The project was approved as it complied with the objectives of LARDP, and requirements established in the eligibility and priority documents. Considering the findings of the Certifying Body, the Agency addressed the Ministry of Agriculture and the Ministry of Finance for explanations concerning the project's eligibility for financing under the SAPARD programme.

5.4.3.6 Insufficient work procedures for the evaluation of projects arranged by newly established economic entities

Intermediate finding

Procedures applied by the Agency prescribe that newly established economic entities, which have been on the market for less than a year until the submission of Application, are treated as economically viable provided that their net profit margin rate and the average return on assets comply with the indices prescribed for a five-year period. However, in several cases the applicant:

- Did not have the experience and competence required;
- Had the minimum authorized capital (10,000 LTL);
- Did not have any assets at his disposal;
- Did not pursue any activities until the submission of Application;
- Did not have any private funds;
- Failed to submit adequate annual financial statement.

Work procedures in effect at RDPD fail to prescribe the procedures for evaluation of such applicants thus, the abovementioned aspects were not considered during the evaluation of Applications.

Risk

Although the Agency evaluates the Applications for SAPARD support following the criteria of eligibility prescribed under the LARDP, the projects approved under the abovementioned circumstances may not be viable in future.

Recommendation

We recommend the management of the Agency to establish additional criteria for the evaluation of investment projects of newly established economic entities, while making the arrangements for Priority IV Rural and Fishery Development of Lithuanian 2004-2006 Single Programming Document.

Agency's comments and actions

The Agency shall evaluate the projects in compliance with the provisions of LARDP and follow the criteria of eligibility established therein. The competence of the Agency does not cover the determination of new criteria. However, the Agency understands that newly established economic entities pose a relatively higher risk compared with entities established on the market earlier, and has submitted respective proposals to the MOA. Therefore, the requirements applied for the evaluation of economic viability of new economic entities are more stringent. Moreover, this factor has been taken into consideration in the Lithuania's Single Programming Document 2004-2006 – Priority IV Rural and Fishery Development of Measure III Improving the Processing and

Marketing of Agricultural and Fishery Products prescribes that the beneficiaries may be entities processing agricultural products and active on the market for a period of at least 12 months until the submission of Application, and cooperative societies. Measure IV Rural Infrastructure Development prescribes that the beneficiaries may be private companies registered and active in rural locations for a period of at least 12 months and employing a workforce not exceeding 50 during regular operations.

5.4.3.7 Tenders organized by the applicant are won by parties associated with the beneficiary

Intermediate finding

While conducting the audit, we established several cases when the tenders for construction and assembly works identified in the project were won by parties associated with the applicant (relatives of shareholders of the economic entity, companies – shareholders or the parties taking part in the activities of beneficiary’s company in any other manner, companies controlled by the same shareholders, subsidiaries).

Risk

The Agency may fail to ensure transparent organization of tenders, which may lead to the utilization of SAPARD funds in derogation of principles of cost saving.

Recommendations

We recommend the management of the Agency to ensure adequate evaluation of commercial bids submitted by the applicant, as well as the procedures and terms of tenders organized by the applicant.

Agency’s comments and actions

Officers of PEU conduct the evaluation of commercial tenders enclosed to the Application pursuant to the provisions of regulations, endorsed by 20 June 2002 Order No. 51 of the Director of the Agency, and governing the procurement of goods, services and works to companies, farmers, or other natural or legal persons aspiring to SAPARD support (hereinafter referred to as Procurement Regulations). Paragraph 9 of abovementioned regulations prescribes that the applicant shall ensure that the providers of services are not interrelated, while the evaluators shall conduct a respective inspection. On 12 December 2003 the Project Selection Commission (minutes No. 56) authorized the Administration and Analysis Unit to supplement the Support Contract with a provision prescribing the beneficiary to provide the Agency with local estimates after the signing of Support Contract and later, after the signing of contract with contractor. Moreover, in case of any doubts concerning the validity of estimates, the Agency initiates a relevant examination (e.g., Project Selection Commission minutes No. 10 of 14 March 2003 and No. 6 of 13 February 2004).

In pursuit of implementation of recommendations, the Agency has ruled to endorse relevant amendments to the procedures and the Director's order No. 51, specifying that in cases where the supplier/contractor taking part in the procurement tender is related with the organizer of procurement, the evaluators shall register the abovementioned relationship in reports, while the Project Selection Commission shall pass a decision concerning the assignment of independent examination.

5.4.3.8 Failure to carry out the examination of estimates of construction, assembly and reconstruction works

Intermediate finding

Procedures established for the evaluation of projects aspiring to support under SAPARD fail to prescribe the examination of estimates of works on construction, assembly and reconstruction, as specified in business plans, i.e., the Agency fails to evaluate the reality of abovementioned estimates, as well as the validation of scopes of works and the prices (accounting estimate). It should be noted that the major part of projects within the SAPARD Support Measures I, II, III and IV is related with the works on construction, assembly and reconstruction.

While conducting the audit, we established several cases when the scopes of works (length of pipes) identified in investments projects within the Support Measure IV Improvement of Rural Infrastructure differed fivefold, which was evidenced by the comparison of those projects, however, the amount of support requested per each project was the same. Moreover, the same construction contractor was selected to implement the projects.

Risk

The estimate of construction works may not be validated by real works and materials used, whereas the project evaluators of the Agency may not have the qualifications required.

Recommendations

To ensure comprehensive evaluation of estimates of works on construction, assembly and reconstruction, we recommend the management of the Agency to endorse relevant supplementations to work procedures, to employ additional specialists of relevant qualifications, to hire external experts, whenever required, or to determine other measures to reduce the risks.

Agency's comments and actions

This factor has been taken into consideration for the arrangement of descriptions of measures of Lithuania's 2004-2006 Single Programming Document – Priority IV Rural and Fishery Development. The Agency has prescribed to oblige the applicant, aided by independent experts, to carry out an examination of estimate of expenditures on the project investments – construction, assembly, reconstruction – prior to the submission of Application for Support.

5.4.3.9 Application of unidentified evaluation procedures for projects within the Fishery sector

Intermediate finding

Following the provisions of LARDP, the compliance of projects within the Fishery Sector of Measure II with the requirements of Regulations No. 2792/1999 shall be evaluated by the Fishery Department of the Ministry of Agriculture (hereinafter referred to as the Fishery Department). However, the actions and responsibility of Agency and Fishery Department of MOA concerning the evaluation of projects aspiring to support under the Fishery Sector of Measure II of SAPARD programme have not been regulated and coordinated adequately.

While evaluating the procedures applied for the administration of projects within the Measure II, we established that the actions of the Agency and the Fishery Department, and their responsibility over the evaluation of projects, aspiring to support under the Fishery Sector of Measure II of the SAPARD programme, are insufficient and coordinated inadequately.

In one case the specialists of the Agency evaluated the eligibility of expenditures (valued at 12 million LTL) specified in a project within the abovementioned support measure, and failed to apply the procedures for the evaluation of eligibility of expenditures identified. Instead, the specialists approved the expenditures as eligible and established the amounts providable, validating the decision with a statement submitted by the Fishery Department. Moreover, the investments and value thereof specified in the abovementioned statement of Fishery Department were entered into the Support Contract although the work description of RDPD does not prescribe any similar procedures.

Risk

Application of unidentified procedures may lead to adoption of unfounded decisions.

Recommendations

We recommend the management of the Agency to cooperate with the Fishery Department over a review and supplementation of the Data Provision Agreement No. 5/33 of 16 May 2001, and expand the agreement with functions of Fishery Department and its responsibility for the determination of eligibility of investments (expenditures) of projects in the fishery sector. Moreover, we recommend supplementing the procedures of work description of RDPD respectively.

Agency's comments and actions

The Agency evaluates the Applications following the provisions of the Programme and the MAFA, and implements the procedures prescribed. Projects related with investments in the fishery sector shall be accompanied by an opinion of Fishery Department concerning the compliance of investments scheduled with the EC regulations, which is a criterion of eligibility established in the Programme. The Agency has received a respective opinion of department and, considering thereof, evaluated the compliance with the eligibility criterion. However, taking the findings into consideration, the Agency has arranged the amendments to the agreement on cooperation between the Agency and the Fishery Department of MOA and coordinated the amendments with the Certifying Body. Currently the amendments to cooperation agreements are coordinated with the Fishery Department.

5.4.3.10 Insufficient evaluation of commercial tenders

Intermediate finding

The Agency's project evaluation procedures concerning the evaluation and comparison of commercial tenders for the purchase of goods or provision of services, which have been received by the applicant and submitted alongside Application for Support, are insufficient.

Risk

The price of support object may be unfounded and the funds of SAPARD support may be used ineffectively.

Recommendations

In order to make sure of validity of expenditures planned, we recommend the Agency to analyse the information about real prices of investments on the market and compare it with commercial tenders. Moreover, we recommend endorsing relevant supplements to the work description of PEU.

Agency's comments and actions

The Agency evaluated the validity of expenditures specified in the project following the requirements of LARDP and the provisions of regulations, endorsed by the Director of the Agency, and governing the procurement of goods, services and works to companies, farmers, or other natural or legal persons aspiring to SAPARD support. In cases where the investment exceeds 10,000 EUR, the validity of expenditures is evaluated under three commercial tenders provided. Moreover, the Project Selection Commission (minutes No. 3 of meeting of 23 January 2004) authorized the PEU to oblige the applicants to provide substantiation and calculations of costs on the arrangement of business plan where the expenditures on consulting services exceed 10,000 EUR. In cases where the expenditures do not reach 10,000 EUR, the PEU shall require the applicant to submit the documents to evidence the costs. Moreover, considering the recommendation, the Agency will initiate procedural amendments and will enter the abovementioned operations into the work description.

5.4.3.11 Failure to adhere to the terms of evaluation of Applications for Support

Intermediate finding

In some cases PEU has examined Applications for Support and made a decision concerning the granting of support after the expiry of terms prescribed in the work description of the Unit and in a respective order of the Director of the Agency (with the terms ranging from one to three months, depending on the project).

Risk

Failure to observe the terms prescribed for the evaluation of project may affect the implementation of project.

Recommendation

We recommend the Director of the Agency to ensure the examination of Application and the adoption of decision concerning the provision or non-provision of support in line with the terms prescribed for the collection of applications in a respective order of the Director of the Agency.

Agency’s comments and actions

The recommendation will be considered. The Agency has made arrangements for the hiring of additional employees, which should allow solving the problems of delays. PEU will employ 15 principal specialists – evaluators by 1 May 2004.

5.4.3.12 Failure to prevent funding of projects eligible for support under SAPARD programme from other EU and national assistance programmes

Minor finding

According to one of criteria established for eligibility for SAPARD support, the project shall cover the activities that are not entitled for financing under other national programmes and EU support measures (ISPA, Phare). Following the work description confirmed, the specialists of PEU shall establish the compliance of project with the above stated general criterion of eligibility in accordance with information provided by the applicant.

Although the Project Evaluation Unit, following the recommendations of previous audits, has initiated the collection of data on economic entities, the investment projects of which have been granted support under the EU and national support programmes, the work procedures in effect at PEU do not prescribe any procedures for the evaluation of abovementioned information.

Risk

Evaluators may fail to make sure whether the project complies with one of general criteria of eligibility.

Recommendation

We recommend supplementing the work description of PEU with work procedures that would oblige the evaluators to obtain sufficient proofs evidencing that the project aspiring for SAPARD support is not funded according to other EU and/or national support programmes.

Agency's comments and actions

The Agency has been regularly addressing relevant institutions asking for information about economic entities that have been granted support under the PHARE 2000 Economic and Social Cohesion and ISPA programmes. Moreover, the Agency provides information about SAPARD beneficiaries on regular basis.

The Ministry of Environment of the Republic of Lithuania has notified the Agency about the water treatment investment projects scheduled for implementation under ISPA programme until 2010. The public establishment Central Project Management Agency has notified the Agency about economic entities, which have been granted support under the PHARE 2000 Economic and Social Cohesion Programme. Moreover, the Agency regularly exchanges information about economic entities funded under the National Programme with the Agency's Market Regulation Programmes Department. Subsequent control measures are taken by the Finance Department, which checks the documents to validate the expenditures.

The Agency evaluated the projects within the SAPARD programme considering the information received in March 2001 about funds assigned for agricultural sector from the PHARE programme, the information received in May 2003 about the projects implemented under the ISPA programme, the information received in August 2003 about the economic entities that have obtained support under the PHARE 2000 Economic and Social Cohesion Programme, the information received in April 2003 about the economic entities that have obtained support under 28 September 2001 Order No. 3389 of the Minister of Agriculture Concerning the Procedure for the Funding of Construction of Power Transmission Lines, and information received in December 2003 about the economic entities that have been granted support under the regulations endorsed by 19 March 2003 Order No. 3D-99 of the Minister of Agriculture.

Moreover, in pursuit of proper administration of funds, the Agency has initiated the arrangement of cooperation agreements, prescribing the exchange of information, with institutions that administer pre-accession support and the resources of EU support funds, and will sign the agreements until 1 May 2004. Moreover, the appendices of RDPD work description governing the job descriptions will be supplemented respectively by 1 May 2005.

5.4.3.13 Failure to adhere to the principle of segregation of duties

Minor finding

In several cases an specialist of PEU charged with evaluation of project was responsible for a review of Project Evaluation Checklist and Project Evaluation Report compiled for the same project by another specialist, and for the completion of Project Evaluation Report Checklist..

Risk

PEU work procedures related with the differentiation of powers may not be observed.

Recommendation

We recommend the Agency to ensure the adherence to the provisions of the MAFA under all and any circumstances.

Agency's comments and actions

On 16 April 2003 an specialist of PEU was appointed acting PEU manager, accordingly, he had to assume the manager's functions. Considering the situation, the acting manager, who pursued to ensure the adherence to internal control procedures, resolved that the projects with overlapping of functions should be reviewed by a higher-ranking officer.

5.4.3.14 Failure to assure project continuity related land lease

Minor finding

The Section 6.1 of LARDP prescribes the general criterion of selection, stipulating that all actions shall be deemed eligible provided that the investment projects specifies that the applicant does not intend to change the nature of activities, the site and conditions of project implementation for a period of at least five years from the date of last disbursement (according to the MAFA).

In some cases the specialist of PEU failed to evaluate the data specified in the business plan and the documents related with land lease and enclosed to the Application.

Moreover, we have established that the projects within Measure I fail to ensure the use of land lot specified in the business plan within the total period of project administration.

Risk

The projects of Measure I may not comply with economic indices forecast in the business plan amid failure to ensure the conditions for the continuity of operations for a period of five years. Moreover, the objectives of LARDP may be missed.

Recommendation

We recommend the management of the Agency to take this finding into account for the arrangement of PEU operational procedures for future EU support funds.

We recommend the management of the Agency to ensure the adherence to the general criteria of eligibility for the evaluation of Applications of the last call.

Agency's comments and actions

Considering the absence of such a criterion in the LARDP, and the facts that the land reform has not been completed, the contracts on lease of public land are concluded for one-year periods and other objective factors, the Agency has followed the provision that deals on land management should be concluded for a period equal or exceeding the term prescribed for the implementation of investments. In the opinion of the Agency, implementation of this recommendation (assurance the validity of land deals for a period of at least five years after the disbursement of last support payment) could lead to rejection of approximately 80 percent of projects submitted. Moreover, the longer term of lease contracts will not prevent the termination thereof because economic entities traditionally conclude and terminate land and any other deals following the principles of economic logic. Should the market offer objective preconditions for the functioning of land market, the abovementioned deals will be clinched. However, absence of such preconditions will prompt the entities to refrain from conclusion of new lease contracts and to terminate the deals clinched before. At present Lithuania has significant areas of virgin land, accordingly, there is economic validation for the presence of the abovementioned unfavourable preconditions.

Moreover, the Agency has made provisions for the supplementation of Support Contract with a condition obliging the applicant to submit the Payment Claim alongside valid (extended, new) land lease contracts for the areas prescribed in the project.

Finally, the Agency addressed the MOA concerning the explanation of relevant provisions of the LARDP. On 22 March 2004 the Agency received the reply in the rescript No. 2D-(12.43)-1258.

5.4.3.15 Failure to assess the validity of costs on drawing of business plans

Minor finding

Applications for Support are submitted with documents on the payment of consulting services (arrangement of business plans), however, no substantiation for the prices of these services is provided (such as estimates specifying the number of consultants, tariffs, time costs, etc.). Meanwhile, the Agency fails to evaluate the relationship between the expenses on the arrangement of business plans and the scope and complicacy of project. The Project Evaluation Unit of the Agency evaluates the availability of business plan only.

Risk

Expenditures on consulting services that have been applied for reimbursement may be unfounded in such circumstances.

Recommendation

We recommend supplementing the work description of PEU with a procedure obliging the evaluator to evaluate the fitness of expenditures in case where a comprehensive estimate of costs is provided, and to compare the prices on drawing of business plan with the prices in effect on the market.

Agency's comments and actions

The Project Selection Commission (minutes No. 3 of meeting of 23 January 2004) authorized the PEU to oblige the applicants to provide substantiation and calculations of costs on the arrangement of business plan where the expenditures on consulting services exceed 10,000 EUR. In cases where the expenditures do not reach 10,000 EUR, the PEU shall require the applicant to submit the documents to evidence the costs. Moreover, considering the recommendation, the Agency will initiate procedural amendments and will enter the abovementioned operations into the work description.

5.4.3.16 Acknowledgement of investment's eligibility for support despite the absence of all documents required

Minor finding

In one case the specialists of PEU, while evaluating a project, approved the expenditures on the provision of consulting services as eligible, although the expenditures have not been validated by a relevant service contract.

Risk

Ineligible expenditures may be approved as eligible.

Recommendation

In cases where all documents to validate the investments scheduled are not provided, we recommend addressing the applicant with a request to provide all and any missing documents.

Agency's comments and actions

Following the provisions of LARDP, the investments with value thereof below the amount of 10,000 EUR do not need commercial tenders. However, considering earlier remarks, the evaluators ask the applicants to provide proofs of validity of investment prices and the calculation of prices for consulting services (business plan, etc.) whenever evaluating the projects. Where the evaluators identify that the value of consulting services differs from the market value thereof, the evaluators ask the applicant to work the structure of price out in detail.

5.4.3.17 Improper application of requirements imposed the qualifications and competence of applicants

Minor finding

One of criteria of eligibility for the Support Measure I is related with the applicant's qualifications, competence or experience relevant for manufacturing of respective products. However, whenever evaluating the projects, the Agency applies this criterion to farmers only, although the notion of applicant covers other entities, including agricultural companies, cooperative societies and other enterprises that producer marketable agricultural products.

Risk

Insufficient qualifications, competence and experience of applicant bring about a risk of failure to achieve project targets.

Recommendations

We believe that agricultural companies, cooperative societies and other companies producing marketable agricultural goods shall prove that they have the qualifications and competence or experience relevant for the manufacturing of products that would be the target of investments.

We recommend supplementing the work description of PEU with provisions prescribing the procedures of evaluation that would assure the qualifications, competence or experience relevant for the manufacturing of products that would be the target of investments for all applicants taking part in the Measure I of SAPARD support programme.

Agency's comments and actions

Compliance with the criterion of competence was checked considering whether the farmer had relevant experience and education. The work description, which has been drawn and approved according to the finding and recommendations of Certifying Body, stipulates that the applicant's qualifications and competence to manufacture the products, which will be the target of investments, are deemed relevant provided that farmers submit a certificate of degree in agricultural sciences or have a record of farming of at least three year, which is evidenced by the date of farm registration specified in the farm registration certificate. Companies and cooperative societies, meanwhile, shall submit the diplomas certifying the professional or higher agricultural education of their executives or shall prove that they have been on the relevant market for a period of at least three year (with a company registration certificate). However, we would like to point out that, in our opinion, the managers of companies should possess the knowledge and skills required for the management of economic entities, i.e., be proficient in management, finance, economics and other spheres, thus assuring the continuity of business and the implementation of Programme objectives. Meanwhile, the requirement for executive officers of legal persons to have a degree in agricultural sciences will not ensure the success of economic entities in business and their competitive abilities on the common market after the allocation of SAPARD support thereto. The Agency addressed the Ministry of Agriculture over the explanation of this requirement of LARDP. On 8 April 2004 the Agency received a reply (MOA rescript No. 2D-(12.43) 1621), which specified that in cases, where the applicant is a corporate entity, the applicant shall prove relevant qualifications and competence to manufacture the products, which are the target of investments, with a list of company's employees having relevant qualifications and competences.

5.4.3.18 Absence of procedures to prescribe the actions to be taken by the Agency after the receipt of applicant's appeal over project evaluation

Minor finding

In several cases the projects were dismissed as economically unfounded and rejected as ineligible, however, later, under the respective assignment of the Director of the Agency, the projects with certain adjustments were resubmitted to the Agency and were approved by evaluators as eligible.

Risk

Project evaluators may apply unidentified procedures.

Recommendation

We recommend supplementing the work description of PEU with provisions prescribing the procedures for appealing against the rejection of projects.

Agency's comments and actions

The Agency considered the recommendations of the National Audit Office and supplemented the work description of PEU respectively on 28 November 2003.

5.4.3.19 Failure to assess supplementary documents after the evaluation of project

Minor finding

In several cases the Agency, upon evaluation of project at PEU, has received additional data related with the project (specified terms of banking loan, adjusted financial forecasts provided in the business plan). However, the data provided have not been evaluated (the contrary has not been documented). Meanwhile, the meeting of the Project Selection Commission, which considered this project, has not been notified about the submission of adjusted business plan with financial forecasts modified (the contrary has not been recorded in the minutes of commission's meeting).

Risk

Failure to consider all documents supplied and to notify PSC thereof may result in making of unfounded decisions.

Recommendation

We recommend supplementing the work description of PEU with provisions that would prescribe the procedures for the evaluation of supplementary documents related with the project and received after the drawing of conclusions by evaluators.

Agency's comments and actions

This finding will be considered, and the work description of RDPD will be supplemented respectively until 1 May 2004.

5.4.3.20 Failure to consider the invalidity of one commercial tender during the procedure of repeated evaluation

Minor finding

In one case the commercial tender was invalid during the re-evaluation thereof.

Risk

Control over operations of PEU officers may be insufficient. Moreover, the project may not be implemented adequately.

Recommendation

We recommend the management of the Agency to arrange and submit to the beneficiary an Inquiry concerning the collection of supplementary documents, following the procedures prescribed in the work description of RDPD.

Agency's comments and actions

The work description of RDPD, and the Appendices – Information List for Project Selection Commission will be supplemented respectively, considering the recommendations stated above.

5.4.3.21 Project evaluation performed disregarding the remarks by Project Selection Commission

Minor finding

In some cases the Project Selection Commission (hereinafter referred to as PSC) rejected the project as ineligible for SAPARD support, however, the applicant submitted supplementary documents to the Agency. Specialists charged with re-evaluation of project, failed to leave any comments in working papers or provided a part of comments on the findings of PSC, which led to the rejection of project as ineligible for SAPARD support.

Risk

PEU specialist may provide PSC with unfounded conclusions of project re-evaluation; accordingly, PSC may pass an unfounded decision concerning the approval of applicant's project as eligible for SAPARD support.

The review and control over Project Evaluation Checklists and Project Evaluation Reports completed by PEU specialists during re-evaluation may be insufficient.

Recommendation

In order to ensure adequate review and control over Project Evaluation Checklists and Project Evaluation Reports completed by PEU specialists during re-evaluation, and to provide PSC with valid conclusions on project re-evaluation, we recommend the specialist of PEU charged with re-evaluation of project to examine all issues, related with project re-evaluation and raised at the PSC meeting, and to answer all those questions adequately in the working documents arranged.

Agency's comments and actions

PEU specialists have been notified about the finding. The secretary of PEU has been charged to enter the extract from the PSC minutes into the file. Considering the recommendation of the Certifying Body, until 1 May 2004 we will supplement the work description of RDPD with provisions prescribing to put extracts from PSC minutes into the applicants' files.

5.4.3.22 Failure to document the calculation of economic viability indices

Minor finding

The procedures in effect at the Agency did not prescribe and the specialists did not provide any written proofs for the calculations of economic viability indices of a project, with which they could prove that the indices had been inspected in detail and were correct.

Risk

Calculations of project evaluators have not been documented and, accordingly, cannot be checked, which may undermine the responsibility of project evaluators, and efficiency and adequacy of control over their work.

Recommendation

We recommend the management of the Agency to supplement the work description of PEU with a worksheet, in which the evaluators could check the regularity of economic viability indices after the summarization of all key financial data specified in the business plan.

Agency's comments and actions

The Agency, following the provisions of 28 November 2003 Order No. BR1-263 of the Director of the Agency, supplemented the work description of PEU with a worksheet of Project Evaluation Check list (SB2a/f), in which the evaluators should enter the results of their inspection of regularity of economic viability indices.

5.4.3.23 Incorrect compilation of information lists for the Project Selection Commission

Minor finding

In some cases the information lists for the Project Selection Commission specified the unused amount of funds for the whole Support Measure instead of priority sector thereof.

Risk

With the budgets of support sectors being of limited nature, the lowest passing score may not be calculated, which may result in a wrong decision concerning the provision or non-provision of support. Moreover, the Director of RDPD may fail to ensure adequate control over the support funds undisbursed.

Recommendation

In order to ensure proper control over the support funds undisbursed, we recommend ensuring that the information lists for the Project Selection Commission provide the remainder of funds undisbursed for a priority sector instead of the support measure as a whole. Moreover, we recommend entering this recommendation into the work description of RDPD.

Agency's comments and actions

The assignations of LARDP for the period of 2000-2006 are distributed among the trends of support, which are also used for control over the utilization of funds. Sectors and funds earmarked thereto are of indicative nature only. In cases where the remaining amount for the sector, as calculated according to indicative indices, exceeds the amount of support applied, the amount earmarked for the sector is specified in SA 4. Where the remaining amount is below the abovementioned sum, or is not available, the remaining amount of funds assigned for the trend is specified. This measure ensures the financing of eligible projects, and, in the event of shortage of funds, the financing of eligible projects singled out according to the order of priority procedures. Considering the recommendations of the Certifying Body, we will supplement the work description of RDPD with relevant provisions by 1 May 2004.

5.4.3.24 Failure to issue an inquity over the collection of supplementary documents

Minor finding

In some cases the specialists of PEU failed to generate an inquiry concerning the collection of additional data.

Risk

The specialists of PEU may fail to observe work procedures prescribed for the evaluation of projects and related with the arrangement of Inquiry concerning the collection of supplementary documents, which undermines the control over the activities of project evaluators.

Recommendation

We recommend the specialists of PEU to observe the work procedures prescribed for the arrangement of Inquiry concerning the collection of supplementary documents.

Agency's comments and actions

The process of project evaluation has taken longer than expected, thus, the applicants contact the Agency on the phone and inquire about the evaluation of projects submitted.

In order to speed the process of project evaluation up, the applicant was notified about the need on supplementary documents by phone. Evaluators were obliged to register each and any case of addressing the applicant by phone concerning the submission of supplementary information. However, considering the recommendation of the Certifying Body, we will confirm respective supplementations to the work description of RDPD by 1 May 2004.

5.4.3.25 Acknowledgement of project's eligibility for SAPARD support by evaluators of Project Evaluation Unit despite the absence of documents to validate the presence of sales markets

Minor finding

According to one of general criteria of eligibility, in cases where the agricultural output is scheduled to rise during the period of project implementation, the applicant shall submit documents validating his abilities to market the products.

In once case we have established that the volume of sales specified in the business plan has not been validated by marketing contracts, moreover, the data provided in the business plan differed from the data specified in the conditional sales, meanwhile, the project evaluator has failed to ensure detailed check of the abovementioned circumstances.

Risk

Insufficient evaluation of sales contracts, covering the products of the applicant, and failure to validate the conclusions with relevant documents may predetermine the failure of projects to meet the general criteria of eligibility.

Recommendation

We recommend the manager of PEU to ensure adequate control over the work carried out by evaluators and proper quality of project evaluation.

Agency's comments and actions

Evaluation of validity of sales markets for output should involve integrated examination of several aspects, including the dynamics of sales reported by economic entities, market research, where available, and the following documents: marketing contracts and preliminary contracts or protocols of intent. The work description, which has already been approved considering the findings of the

Certifying Body, prescribes that the applicant shall submit marketing contracts signed or preliminary contracts that ensure the markets for the sales of products and should lead to the expansion thereof.

5.4.4 CONCLUSION

Except for the cases identified in the findings, we think that the specialists of CDRU execute their functions essentially adhering to the regulations prescribed by the Agency. Thus, the internal control procedures related with the function of project evaluation are theoretically sound and operate satisfactorily in practice.

5.5 ADMINISTRATION AND ANALYSIS UNIT OF RURAL DEVELOPMENT PROGRAMMES DEPARTMENT

5.5.1 BACKGROUND

In pursuit of objectives and tasks of RDPD, the Administration and Analysis Unit (hereinafter referred to as AAU) has been assigned with the following functions:

- To accept, verify and register the documents submitted by the PEU;
- To open and manage Project Supervision Files, which accumulate and systematize the information related with project monitoring;
- To arrange and ensure the arrangement and signing of Support Contract between the Agency and the beneficiary;
- To arrange and forward an Information Letter notifying the applicant about the amount of support granted, as well as about the terms and conditions prescribed for the use of support;
- To arrange the summaries of projects under implementation and submit thereof to regional units and other structural units of the Agency;
- To control and monitor the terms of implementation of the project approved and the terms and conditions set forth in the Support Contract, in order to ensure real and adequate execution of transactions funded by the programme until the completion of project implementation;
- Where necessary, to ensure compliance of procurements executed by state authorities and municipal institutions with the regulations set forth in the European Commission manual concerning the Contracts on services, goods and works concluded by the Community for cooperation with third parties.

- To initiate on-the-spot check in the event of determination of guile, fraud or other irregularities in the course of implementation of the project approved;
- To initiate the termination of projects where the cases of contract violation are registered;
- To collect, accumulate and systematize information related with the implementation of Special Accession Programme for Agricultural and Rural Development (SAPARD) in Lithuania.

As at 31 December 2003, the AAU employed a workforce of 8, including the Head of the Unit.

Following the work description of RDPD, the structure of AAU is the following:

- Head of the unit manager directly responsible for the coordination and organization of unit's activities;
- Chief specialist – expert in charge of collection and systematisation of information related with the implementation of SAPARD programme;
- Chief specialist – administrators in charge of qualified supervision of projects approved.

5.5.2 DOCUMENTS REVIEWED AND DETAILED TESTING PERFORMED

While conducting the audit, we reviewed the following working documents of AAU:

- AAU work description;
- Job profiles of various positions at AAU;
- Schemes of work procedures;
- Audit reports related with this Unit and arranged by the Internal Audit Department.

We conducted an inspection of procedures applied at the AAU for the arrangement and signing of Support Contracts, monitoring of projects under implementation, projects finalized, and the procedures applied for the termination of Support Contracts via a review of the following AAU working documents entered into the Project Supervision Files sampled for testing:

- SRA 2 Lists of Application Evaluation and Administration Elements;
- SA 6 Information Letters;
- SB 5 Support Contract Preparation Checklists;
- SA 8 Support Contracts;
- SA 9 Project Implementation Plans;
- SA 11 Summaries of Projects under Implementation;
- SA 12 Conclusions on Amendment of Support Contract;
- SA 16 Quarterly Reports on Project Implementation and Used Funds;
- SA 17 Annual Reports on Completed Projects;
- MP 4 Official Notifications on the received Payment Claims;

- Reports about the Initiation of Project Execution;

Moreover, we conducted a review of the following working documents related with the activities of this unit:

- SA 14 Work Reports of Administration and Analysis Unit.

Finally, we reviewed the following document registration (Accounting) books filled in at the unit:

- SŽ 4 Registration (Accounting) Book of Projects;
- SŽ 7 Registration Book of Projects under Implementation;
- SŽ 8 Registration Book of Completed Projects;
- SŽ 5 Registration (Accounting) Books of Incoming Documents;
- SŽ 6 Registration (Accounting) Book of Outgoing Documents.

5.5.3 FINDINGS

Findings related with the execution of project administration and analysis functions performed by AAU are stated below.

5.5.3.1 Signing of Support Contracts with value thereof exceeding the maximum support limit

Major finding

We have established eleven cases when the Support Contracts, concluded between the Agency and the beneficiary with the euro and litas rate in effect on the date of Application submission applied, exceeded the maximum amount of support prescribed under the LARDP in December 2001, i.e., prior to the introduction of fixed euro and litas rate, by a total of 741,158 LTL. Support Contracts, however, were signed after the introduction of fixed euro and litas rate, i.e., after 1 February 2002.

In 2002-2003 the Agency, exceeding the maximum level of support, paid out a total of 122,849 LTL for seven beneficiaries, including 87,779 LTL paid in 2003. Moreover, the Agency has obliged to grant 563,249 LTL for three beneficiaries. Meanwhile, in one case a part of investment not eligible for reimbursement has been subtracted from the amount pledged to the beneficiary, thus, the end amount of support to be paid out to the above mentioned beneficiary will not exceed the maximum level of support.

The work procedures of Agency's AAU failed to specify the date of euro and litas rate that should be applied for the calculation of the maximum amount of support.

Risk

The control procedures in effect at the Agency does not prevent the amount of support from exceeding the maximum level of support as prescribed under the LARDP.

Recommendation

We recommend the management of the Agency to recover from beneficiaries 122,849 LTL in SAPARD support paid in excess of maximum level of support, following the procedures prescribed in the legislation.

We recommend the management of the Agency to initiate the amending of Support Contracts with three beneficiaries in order to reduce the amount of 563,249 LTL in support until the maximum level of support.

Agency's comments and actions

Considering the recommendations provided by the National Audit Office, the Agency addressed the beneficiaries, who received the SAPARD support exceeding the maximum support level, with requests to return the overpay.

The Agency will initiate the amending of terms and conditions of Support Contract with one beneficiary who has not yet implemented the project and the amount of support due to be granted to the beneficiary exceeds the maximum level prescribed under the LARDP.

For two beneficiaries, the Agency subtracted a part of investments not eligible for support, in total 130,888 LTL, accordingly, the amount of support to be paid to the above beneficiaries will not exceed the maximum level of support.

5.5.3.2 Improper amendment of Support Contract

Intermediate finding

While conducting the audit, we noted several cases when the AAU administrators, following the initiative of the applicant, amended the Support Contract improperly thus deviating from the provisions of regulations concerning the amendment or supplementation of Support Contracts for SAPARD assistance:

1. Upon the submission of first Payment Claim by the beneficiary and the authorization of the claim by the Agency, the latter received a request of beneficiary who applied for a permission to enter into the second Payment Claim the amount of 23,019 LTL, which had been omitted from the first Payment Claim. The conclusion of AAU concerning the amendment of Support Contract did not provide the Agency's opinion over this issue. Thus, the agreement over the amendment of Support Contract contained an unfounded provision allowing to enter the abovementioned amount into the second Payment Claim.
2. With the beneficiary replacing the supplier/contractor, the Agency failed to require the beneficiary to organize a new tender and submit the minutes of commission in charge of the tender organized.

3. In several cases the AAU failed to evaluate the applicant's request for the replacement of contractor/supplier in due time.
4. In several cases, when the applicant filed in an overdue request for a deferral of term for the submission of Payment Claim, project administrators agreed with a respective amendment of Support Contract in derogation of regulations on amendment or supplementation of Support Contract for SAPARD assistance.
5. In one case the AAU officers agreed to defer the term for the submission of Payment Claim upon a receipt of applicant's request without the legal particulars required, i.e., without the seal of the applicant and the signature of chairman-administrator.

Risk

At times AAU employees fail to adhere to the work procedures, while the Head of the unit sometimes fails to ensure adequate supervision of work conducted by his subordinates and the review of their working documents.

Recommendation

We recommend to amend the Support Contract in line with the regulations prescribed for the amendment or supplementation of Support Contract for the SAPARD assistance, and to ensure adequate supervision and review of work.

Agency's comments and actions

The first and the last findings are accidental (isolated) cases.

As far as the second finding is concerned, the regulations on amendment or supplementation of Support Contract in effect at that time did not require the beneficiary to organize a new tender for the replacement of contractor/supplier. On 26 August 2003 the regulations on amendment of contracts were supplemented with provisions prescribing the abovementioned requirement.

The reason behind the third finding was a complicated process for the evaluation of applicant's request for the replacement of contractor/supplier.

The fourth finding is a rather frequent case, thus, the Agency will review the regulations on amendment and supplementation of Support Contracts for SAPARD assistance and will supplement thereof properly.

Amendment of Contract in the event of changing of supplier/contractor may only be executed by AAU following the regulations on the amendment or supplementation of Support Contract for SAPARD assistance, as endorsed by 31 December 2003 Order No. BR1-333 of the Director of the Agency Concerning the Confirmation of Regulations on the Amendment or Supplementation of Support Contract for SAPARD Assistance. The officers of AAU have been warned repeatedly about the need to adhere to the terms prescribed for the amendment of contracts, considering the particulars of each project.

5.5.3.3 Untimely notification of FAD about the deferred terms of Payment Claims

Minor finding

In some cases the AAU failed to notify the Support Programmes Accounting and Reports Unit (hereinafter referred to as SPARU) about the deferral of terms for the submission Payment Claims in a timely manner.

Risk

SPARU may develop unfounded cash flows forecasts. Moreover, the Report on SAPARD and Co-financing Funds Scheduled for Payouts (AA29A) may be inaccurate.

Recommendations

We recommend the management of the Agency to ensure that the AAU notifies SPARU about the deferral of terms for the submission of Payment Claims in a timely manner.

Agency's comments and actions

These recommendations of the National Audit Office will be considered.

5.5.3.4 Terms and conditions prescribed by Project Selection Commission omitted in the Support Contract

Minor finding

In one case the Support Contract omitted the terms prescribed by PSC and stating that the applicant shall submit the Payment Claim alongside the documents evidencing that the authorized capital had been raised and paid up, as well as the documents evidencing that the bank specified in the business plan had extended the loan under the conditions identical or better than the ones specified in the business plan.

Risk

The manager of AAU may fail to ensure comprehensive and accurate arrangement of Support Contract.

Recommendation

We recommend the Agency to initiate a relevant amendment to the Support Contract via supplementation of Support Contract with the condition identified by PSC. Moreover, we recommend the manager of AAU to ensure adequate control over the arrangement of Support Contract.

Agency's comments and actions

Considering the recommendations of the National Audit Office, the irregularity disclosed in the Support Contract was corrected via initiation of respective amendment to the Support Contract.

5.5.3.5 Failure to adhere to the terms and conditions on drawing of Support Contracts in all and any cases

Minor finding

In several cases the administrators of AAU failed to adhere to the terms prescribed in the work description of AAU for the arrangement and conclusion of Support Contract.

Risk

Failure to observe the terms prescribed in the AAU work description for the conclusion of Support Contract may affect the implementation of project.

Recommendations

We recommend the management of the Agency to ensure the adherence to the procedures prescribed for the arrangement of Support Contract.

The management of the Agency should conduct a review of terms for the arrangement of Support Contract making respective amendments to the AAU work description simultaneously.

Agency's comments and actions

Amendments to the work description of AAU will be arranged following the recommendations of the National Audit Office.

5.5.3.6 Failure to adhere to operational procedures related with the arrangement of Information Letter

Minor finding

In one case the Information Letter (SA 6) notifying the beneficiary about the amendment of Support Contract has not been arranged.

In several cases the Information Letter (SA 6) notifying the beneficiary about the granting of support and a respective amendment of Support Contract was arranged in derogation of terms prescribed in the work description.

Risk

Untimely administration of project may affect the implementation of project.

Recommendations

We recommend the AAU to ensure the arrangement of Information Letter (SA 6) in line with the terms prescribed, and, where necessary, to revise the terms.

Agency's comments and actions

The first finding is an accidental (isolated) case.

The recommendations of the National Audit Office will be taken into consideration for the arrangement of amendments to the work description of AAU.

5.5.3.7 Insufficient review of check lists for the inspection of drawing of Support Contracts and Support Contract itself

Minor finding

In some cases the manager of AAU signed the check lists for the inspection of arrangement of Support Contracts (SB 5) that had been filled in improperly.

In one case the manager of AAU did not sign the check list for the inspection of arrangement of Support Contracts (SB 5).

Risk

The manager of AAU may fail to ensure adequate review of working documents of his or her subordinates.

Recommendation

We recommend the AAU manager to develop a more careful approach towards the review of check lists arranged by specialists for the inspection of arrangement of Support Contracts (SB 5), and, with the review complete, to sign the check lists.

Agency's comments and actions

This is an accidental (isolated) case. The Agency has made a random selection and review of projects, and has not disclosed any similar errors.

5.5.4 CONCLUSION

Except for the cases identified in the findings, we believe that the specialists of AAU execute their functions essentially adhering to the regulations prescribed by the Agency. Thus, the internal controls procedures applied to the function of project administration are theoretically sound and operate satisfactorily in practice.

5.6 PROJECT SELECTION COMMISSION

5.6.1 BACKGROUND

The Project Selection Commission (hereinafter referred to as PSC) is not a regular structural unit of the Agency. The number of PSC members and the personnel is approved by the Director of the Agency under a respective order. The objectives of PSC activities are the following:

- To ensure the allocation of SAPARD programme funds pursuant to target designation thereof;
- To ensure the evaluation of projects according to the work procedures prescribed;
- To promote economic agricultural and rural development via the assurance of the best possible selection of projects eligible for the SAPARD support;
- To ensure the distribution of SAPARD support funds according to the data set forth in the Financial Plan of LARDP.

In pursuit of these objectives, the PSC has been assigned with the following functions:

- To analyse the projects submitted by applicants according to the trends of SAPARD programme and priority sectors;
- To discuss and analyse the Project Evaluation Reports generated by officers of Project Evaluation Unit;
- To inspect the examination and evaluation of project performed by officers of Project Evaluation Unit and provide the conclusions to the Director of the Agency;
- To consider and examine the applications of beneficiaries while amending the Support Contracts;
- To submit to the Director of the Agency the proposals concerning the termination of terms for the implementation of projects;
- To provide proposals concerning the modification of financial provisions of LARDP.

The composition of PSC is the following:

- Deputy Director of Agency (Commission Chairman);
- Director of Rural Development Programmes Department (Assisting Commission Chairman);
- Head of Administration and Analysis Unit;
- Director of Control Department;
- Director of Legal Department.

5.6.2 DOCUMENTS REVIEWED AND DETAILED TESTING PERFORMED

While conducting the audit, we reviewed the following documents related with PSC and activities thereof:

- PSC work description;
- PSC agendas;
- Confirmations of Finance and Accounting Department concerning the funds available;
- Minutes of PSC meetings;

- SA 4 Summaries of Evaluated Applications;
- SB 4 Checklists of Preparing Information for PSC;
- SA 3 Project Evaluation Reports.

We checked the adherence with the procedures on evaluation of projects and amendment of Support Contracts as prescribed to the PSC.

Finally, we reviewed the following document registration (accounting) book related with the activities of PSC:

- SŽ 1 Registration (Accounting) Book of Applications.

5.6.3 FINDINGS

Findings related with the execution of project evaluation functions performed by PSC are stated below.

5.6.3.1 Failure to terminate project administration upon initiation of re-evaluation

Minor finding

Upon initiation of re-evaluation of project, further assessment of projects within the Sector II of Measure III had not been suspended until the completion of additional project evaluation procedures, although the demand of Sector II of Measure III in support exceeded the assigned amount of support funds untapped.

Risk

PSC may fail to follow the procedures prescribed for the selection of projects.

Recommendation

We recommend PSC whenever initiating the re-evaluation of project in the sector, in which the demand in support funds exceeds the assigned amount of funds untapped, to suspend the evaluation of projects in this sector until the completion of additional project evaluation procedures or to identify in writing the reasons that allow continuing the administration of projects within this sector.

Agency’s comments and actions

The recommendation of National Audit Office will be considered.

5.6.3.2 Failure to conduct the analysis of funds assigned for the measure /sector

Minor finding

The work description of PSC sets forth that members of commission shall consider the amount of funds assigned for the Support Measure and the Sector whenever evaluating the projects.

In several cases the members of PSC failed to consider that the total amount of support specified in the projects under consideration exceeded the amount assigned to the Support Measure and the Sector.

Risk

The amount of support funds prescribed for the Measure/sector may be exceeded, leading to a failure to adhere to the provisions of LARDP.

Recommendation

We recommend the management of the Agency to expand the work procedure of PSC with provisions prescribing that the projects shall be evaluated according to the order of priority procedures in cases when the amount of support designated for the sector is exceeded.

Agency's comments and actions

Assignations for LARDP 2000-2006 have been distributed according to the trends of support, which are also used for the control over funds utilization. Sectors and funds earmarked thereto are of indicative nature. In cases where the remaining amount for the sector, as calculated according to indicative indices, exceeds the amount of support applied, the amount earmarked for the sector is specified in SA 4. Where the remaining amount is below the abovementioned sum, or is not available, the remaining amount of funds assigned for the trend is specified. This measure ensures the financing of eligible projects, and, in the event of shortage of funds, the financing of eligible projects singled out according to the order of priority procedures.

5.6.3.3 Failure to provide all information required at the meeting of PSC

Minor finding

Following the provisions of work description of PSC, the manager of PEU shall notify the meeting of PSC about the amount of support earmarked for a particular trend or sectors and how many projects could be supported. Moreover, the members of PSC shall examine whether the evaluation of individual project applying for support has been qualified.

In several cases the minutes of PSC meeting did not register the following:

- Information about the funds assigned to the sector and the number of projects to be supported, which was presented during the meeting.
- The members of PSC examined whether the evaluation of project had been qualified and performed pursuant to all requirements and procedures prescribed.

Risk

Members of PSC may not be informed about the total amount of support earmarked for the sector under consideration, as well as about the number and nature of projects that may be eligible for support. Moreover, the members of PSC may not consider the quality of evaluation of the project applying for support.

Recommendation

We recommend the PEU manager to notify all members of PSC about the funds designated for the sector and the number of projects eligible for support. Moreover, we recommend to ensure proper documentation of PSC meetings.

Agency's comments and actions

Following the regulations of PSC, the manager of PEU always notifies the commission about the number and nature of projects submitted for consideration under specific trends of SAPARD support and the priority sectors of those trends, the amount of support earmarked for those trends or sectors, and the number of projects that may be supported. All members of PSC and participating persons receive the summaries SA 4 with the abovementioned information. In addition, the amount of assignations to certain trends of support far exceeded the amount requested in Applications for quite a long period of time, thus, this fact has not been registered in each protocol. In cases where the amount of support requested exceed the remainder of assignations, the data on the amount of support, the funds assigned for trends or sectors, the number of projects that may be supported and other relevant information is registered in minutes of PSC meetings on regular basis.

The members of PSC that take part in the meeting obtain extensive information about the circumstances of evaluation of each project, the reasons and motives of evaluation conclusions. Where the commission deems that the evaluation conclusions are unfounded, are not provided with sufficient validation or the project has been evaluated in derogation of procedures prescribed, etc., the commission makes a decision concerning the re-evaluation of project. The cases of re-evaluation of projects initiated under a respective decision of PSC manifest that the members of PSC apply an active, principled and competent approach towards the administration of SAPARD.

5.6.3.4 Failure to implement all PSC operational procedures related with additional project evaluation

Minor finding

Following the operational procedures of PSC, the recommendation on additional project evaluation shall be legalized in a separate document signed by the PSC chairman, coordinated with the Director of the Agency, attached to the minutes and handed over to the addressee.

While conducting the audit, we established that this procedure was not applied in practice. Following the minutes of meeting, the Director of RDPD issues an assignment for one of evaluators to conduct an additional project evaluation.

Risk

Some work procedures of PSC may not be executed.

Recommendation

We recommend the management of the Agency to evaluate whether the legalization of recommendation on additional project evaluation in a separate document is efficient and to ensure the use of recommendation, or to initiate respective amendments in the operational procedures of PSC.

Agency's comments and actions

We believe that supplementation of operational procedures with yet another working document would not be efficient because the decision of PSC is registered in minutes signed by the PSC chairman and secretary.

The secretary of PEU has been charged to put a relevant extract of PSC minutes into a file. Considering the recommendation of Certifying Body, by 1 May 2004 we will expand the operational manual with a provision prescribing to put extracts from PSC minutes into the applicants' files.

5.6.4 CONCLUSIONS

Except for the cases identified in the findings, we believe that the specialists of PSC execute their functions essentially adhering to the regulations prescribed by the Agency. Thus, the internal controls procedures applied to the function of project evaluation are theoretically sound and operate satisfactorily in practice.

5.7 FINANCE AND ACCOUNTING DEPARTMENT

The structure of Finance and Accounting Department (hereinafter referred to as FAD) covers four units:

- Payment Claims Unit;
- Payment Unit;
- Support Programmes Accounting and Reports Unit;
- Internal Accounting and Reports Unit.

The structure ensures adequate differentiation of functions on evaluation and approval of Payment Claims, execution of payments and payment accounting. The Internal Accounting and Reports Unit does not take part in the activities related with the administration of SAPARD programme as the field of its operations is associated with the accounting and control of funds allocated from the national budget of the Republic of Lithuania for the maintenance of the Agency. Accordingly, the activities of this unit have been excluded from this audit.

The Director of FAD is charged with organization and coordination of department's activities, is responsible for the execution of functions assigned to the department and ensures the management of European Union funds.

A special application of Navision Financials software, used by FAD for the management of accounting, has been developed for the Agency. Accounting software covers two modules, one of which is used for the accounting of funds of the SAPARD programme and national co-financing, while the other is employed for the accounting of national budget funds used for the maintenance of the Agency.

The tasks of FAD related with the administration of SAPARD funds are the following:

- To ensure that the legality and validity of Payment Claim submitted by the beneficiary is ascertained prior to authorization of each and any payment;
- To ensure proper accounting of Agency's liabilities to beneficiaries;
- To ensure that all payments are paid in a timely manner and registered in the accounting registers properly;
- To ensure that all reports are generated in a timely manner following the format prescribed;
- To ensure the storage of all documents related with payments paid for a period of five years from the authorization of last payment to the beneficiary;
- To ensure to the European Commission and the National Audit Office proper access to information stored by FAD in paper format or in electronic files.

The objectives of FAD are the following:

- To promote the economic agricultural and rural development via the administration of SAPARD;
- To aspire for timely implementation of SAPARD and utilization of funds assigned pursuant to targeted designation thereof.

5.8 PAYMENT CLAIMS UNIT OF FINANCE AND ACCOUNTING DEPARTMENT

5.8.1 BACKGROUND

In pursuit of objectives and tasks of FAD, the Payment Claims Unit (hereinafter referred to as PCU) has been assigned with the following functions:

- To check the regularity of completion of Payment Claims and submission of all documents required to validate the Payment Claim;

- To register Payment Claims;
- To carry out qualified analysis and evaluation of Payment Claims;
- To determine the amount payable to the beneficiary;
- To generate a report on Payment Claim evaluation;
- To make a decision concerning the approval of Payment Claim;
- Where the decision concerning the approval of Payment Claim or granting of a certain part of requested amount is negative, to arrange reasoned information thereof for the beneficiary.

As at 31 December 2003, the Payment Claims Unit employed a workforce of 9, including the Head of the unit.

Following the work description of FAD, the structure of Payment Claims Unit is the following:

- Head of the unit directly responsible for the coordination and organization of unit's activities;
- Chief specialists – evaluators in charge of qualified analysis and evaluation of Payment Claims, determination of payment amount and generation of reports on Payment Claim evaluation;
- Chief specialist – secretary in charge of management of registration books for the unit's documents.

5.8.2 DOCUMENTS REVIEWED AND DETAILED TESTING PERFORMED

While conducting the audit, we reviewed the following documents related with PCU:

- Work description of Payment Claims Unit of the Finance and Accounting Department;
- Job profiles for various positions at the Payment Claims Unit;
- Schemes of work procedures.

We checked the adherence with the procedures on acceptance, registration and evaluation of Payment Claims prescribed for the PCU. Moreover, we conducted detailed tests of 100 Payment Claims sampled for testing.

Considering the findings of the audit, the errors that may impact our opinion concerning the accuracy, regularity and completeness of Annual Declaration of Account, and the adherence to the provisions of MAFA, we conducted the following additional tests:

- calculation of amounts paid out by the Agency during the period of SAPARD programme implementation and the amounts of remaining liabilities exceeding the amount of support prescribed by LARDP;

- recalculation of investments related with construction and dismantling works that have been subtracted irregularly;
- inspection of full settlements with contractors by all beneficiaries of Measure Improvement of Rural Infrastructure, to which the Agency reimbursed the investments that had not been validated by documents to evidence the expenditures;
- inspection whether the payments carried out in the beginning and at the end of reporting period were shown in the ledgers properly.

In order to make sure of adherence of PCU specialists with the control procedures prescribed in the work description of this unit, we reviewed the following working documents entered into the Payment Claim Files sampled for testing:

- MP l Checklists for Official (Secretary) of Payment Claims Unit;
- MP 2 Inquiries about the Payment Claim with Enclosures Submitted by the Beneficiary;
- MP 5 Official Notifications on the received Payment Claims with Annexes;
- MP 6 Chief Specialist’s (Evaluator’s) of the Payment Claims Unit document Checklists;
- MP 7 Payment Claim Evaluation Reports;
- MP 8 Head of the Payment Claims Unit Document Checklists;
- MP 9 Director of Finance and Accounting Department Document Checklists;
- MP 11 Information Letters;
- MP 12 Inquiries for on-the-spot check;
- MPR 3 Payment Claim Auditorial Checklists;

Moreover, we conducted a review of following documents related with the activities of this unit:

- MP10 Payment Claims Unit Activities Report;

Finally, we reviewed the following document registration (accounting) log filled in at the unit:

- MP 3 Registration Book of Payment Claims.

5.8.3 FINDINGS

Our findings related with the functions of Payment Claim acceptance, registration and evaluation performed by PCU are provided below.

5.8.3.1 Payment of investments that may not comply with the provisions of LARDP and Support Contract

Major finding

While conducting the audit, we checked nineteen Payment Claims within the Sector II Meat of Measure II Improving the Processing and Marketing of Agricultural and Fishery Products. This measure usually offers support for investments into the upgrade of meat processing plants, construction of wastewater treatment installations, i.e., the investments directly related with the processing of agricultural products, as specified in the LARDP, and with implementation of EU standards and requirements concerning the environmental protection, veterinary safety, hygiene, food quality and animal welfare.

In one case, on 28 March 2002, the Agency and the beneficiary concluded the Support Contract No. SA 8-P23010017 pursuant to the winning commercial offer that prescribed the construction of slaughter house with meat dressing shop and purchase of new equipment. By signing the Contract, the Agency obliged to reimburse the beneficiary's investments into the construction of new slaughter-house, meat dressing shop and auxiliary facilities.

While conducting the audit, we observed that, following two Payment Claims submitted by the beneficiary (No. M23030007 and Nr. M23030033), the Agency reimbursed the investments (420,118 LTL) related with the construction of administrative building with a store and a lodge for security guards. While evaluating the Application for Support and Payment Claims, the specialists of the Agency failed to evaluate the compliance of the abovementioned expenditures with the objectives of LARDP, the terms and conditions of Support Contract No. SA 8-P23010017, dated 28 March 2002. It should be noted that, following the provisions of Construction Technical Regulations 1.01.09:2003[3], the administrative building and the lodge for security guard shall not be attributed to the group of facilities of manufacturing designation.

We could not make sure whether the abovementioned funds were paid out legally and were accounting in the Agency's ledgers properly.

It should be noted that the Agency, following the Check On-the Spot Report and the Support Contract No. SA 8-P23010017, dated 28 March 2002, refused to reimburse beneficiary's investments related with the construction of company's apartments and specified in the Payment Claims (No. M23030007 and No. M23030033).

Risk

The Agency may have approved and reimbursed the beneficiary's expenditures on the construction of administrative facilities and the security guard lodge (420,118 LTL), which may not be related with the objectives of LARDP directly and may not comply with the terms and conditions of Support Contract, which stipulates for the support of investments into the construction of new slaughter-house and meat dressing shop with auxiliary manufacturing facilities.

[3] Order No. 289 of Minister of Environment of the Republic of Lithuania, dated 11 June 2003, Concerning the Confirmation of Construction Technical Regulations STR 1.01.09:2003 Classification of Constructions Pursuant to Designation Thereof //Valstybes Zinios,2003, No. 58-2611.

Recommendation

We recommend the Agency to conduct supplementary evaluation of all documents related with Payment Claims No. M23030007 and No. M23030033 and to make a final decision concerning the eligibility of expenditures of 420,118 LTL and compliance thereof with the objectives of LARDP.

Agency's comments and actions

Considering the recommendations of the National Audit Office, all documents related with Payment Claims No. M23030007 and No. M23030033 will be evaluated supplementary by 1 May 2004. Should the Agency disclose that the investments reimbursed to the beneficiary are not eligible for SAPARD support, the Agency will subtract the amount under the last Payment Claim.

5.8.3.2 Payment of amounts in excess of maximum support limits

Major finding

In 2002-2003 the Agency, exceeding the maximum level of support, prescribed under the LARDP, paid out a total of 122,849 LTL for seven beneficiaries, including 87,779 LTL paid in 2003. For more information, read Subsection 5.5.3.1.

Recommendation

We recommend the Agency to apply procedures prescribed by legislation for the recovery of the amount of 122,849 LTL in SAPARD programme funds, which were paid to beneficiaries in excess of maximum support limit.

Agency's comments and actions

Considering the findings and recommendations of the National Audit Office, the Agency forwarded rescripts with a request to return the overpaid amount of support to the beneficiaries who received the SAPARD support amount exceeding the maximum support limit.

Four of seven beneficiaries returned to the Agency 92,064 LTL in overpaid funds during the audit period. The overpay registered for three beneficiaries, a total of 30,785 LTL, will be returned via respective reduction of SAPARD support payable under subsequent Payment Claims, following the agreement between the Agency and the beneficiaries stated above.

5.8.3.3 Incorrect calculation of investments not eligible for reimbursement

Major finding

In fifteen cases the specialists of PCU determined the amount payable via incorrect subtraction of demolition and dismantling works from Payment Claims. Having decided to refrain from reimbursement of the abovementioned positions of works, the evaluators failed to subtract the rated increase accounted for those positions on direct expenditures. Thus, the Agency exceeded the amount due for those beneficiaries by a total of 108,764 LTL in SAPARD funds.

It should be noted that auditors established eight cases where the specialists of PCU made correct calculations of amounts of works not eligible for reimbursement.

Risk

The control measures applied by PCU for supervision and review procedures may not be sufficient. Payment Claim specialists make systemic errors in evaluation and calculations of investments not eligible for reimbursement.

Recommendation

We recommend the management of the Agency to focus on complete and adequate execution of work procedures prescribed, and to consider possibilities to recover the overpay of 108,764 LTL from beneficiaries.

Agency's actions and comments

On 15 April 2004 the Agency issued rescripts with a request to return the overpaid amount of support to six beneficiaries who have implemented the projects and who have received an overpay under the abovementioned reason. The overpay will be recovered from the remaining beneficiaries, who have yet not finalized the projects, via respective reduction of payments due under other Payment Claims.

5.8.3.4 Reimbursement of investments that have not been paid in full

Intermediate finding

The provisions of Article 8 (1 (b)) of Section A of the MAFA prescribe that the Agency's SAPARD payments shall be validated by declarations of expenditures to be submitted by beneficiaries.

In thirteen cases the beneficiaries (most often, local authorities) of Measure IV Improvement of Rural Infrastructure provide the Agency with Payment Claims accompanied with invoices that had been paid up in part (10 percent of project value). Instead of actual expenditures, the specialists of Payment Claims Unit determined the amount of support payable to beneficiaries according to the invoices that had been paid up in part and had been submitted alongside the Payment Claims. The Agency paid out a total of 3.7 million LTL in such a manner in 2003.

In order to make sure that the invoices of beneficiary were paid up in a fair and proper manner, the Agency asked the beneficiaries to deliver payment orders and extracts from bank accounts that could validate the payments fulfilled. However, these documents were not enclosed in the Payment Claim files at the time of audit. Moreover, the specialists of PCU did not conduct a check to establish whether the beneficiaries, who submitted to the Agency the Payment Claims that were partially paid up and covered by the Agency during 2003, completed all settlements with contractors.

Additional testing has revealed that all beneficiaries, to whom the Agency reimbursed the investments unfounded with documents validating the costs, have completed all settlements with contractors.

It should be noted that the auditors of EU Chamber of Auditors established an identical finding in the course of their audit mission in Lithuania in 2003.

Risk

Control procedures applied by the Payment Claims Unit sometimes fail to ensure the adherence to the provisions of the MAFA governing the determination of amounts payable.

Recommendation

We recommend the management of the Agency to ensure the disbursement of SAPARD support pursuant to the requirements of the MAFA.

Agency’s comments and actions

Considering the findings established by auditors of EU Chamber of Auditors, the Agency has ruled to apply the procedure of settlements prescribed in the MAFA whenever administering the Support Measure Improvement of Rural Infrastructure, i.e., to approve as eligible the expenditures on investments that have been paid up in full.

Moreover, following the remarks of auditors of the EU Chamber of Auditors, the Agency collected all documents evidencing the fact of settlements with contractors.

Considering the recommendations of the National Audit Office, the documents validating the expenditures have been put into the Payment Claim files.

5.8.3.5 Payment under a Payment Claim without the performance of on-the-spot check

Intermediate finding

In one case, failing to conduct the on-the-spot check of Payment Claim, the CDRU provided the PCU with a Payment Claim that had been submitted repeatedly and had been registered under a new authentic number. The PCU specialist charged with the evaluation of Payment Claim relied on the results of on-the-spot check of the Payment Claim that had been rejected, which, however, constitutes a derogation from the provisions of paragraph 5.8.1.15 of FAD work description, which prescribes that in cases when a Payment Claim is rejected and the beneficiary submits a new Payment Claim, the latter claim shall be assigned a new authentic registration number and the Agency shall conduct a new on-the-spot check. The manager of PCU failed to consider that the specialists evaluated the abovementioned Payment Claim in derogation of work procedures prescribed. Moreover, the manager reviewed the working documents arranged by the specialists, approved as eligible the Payment Claim, which was evaluated under the abovementioned circumstances, and sign the report on evaluation of Payment Claim.

In derogation of procedures prescribed, the management of FAD was not notified about the circumstances surrounding the evaluation of Payment Claim, and the manager of PCU did not coordinate his actions with the management.

Risk

PCU may fail to adhere to the evaluation procedures prescribed, and the review of their working documents is not adequate.

Recommendation

To prevent any similar facts in future, we recommend the management of the Agency to conduct an official check-up, establish the reasons of violations, notify the officers of PCU thereof and, where necessary, to confirm respective supplementations to the work description of FAD.

Agency's comments and actions

The Payment Claim mentioned by the National Audit Office was submitted to the CDRU repeatedly without any supplementary documents. Moreover, the investments declared in the document were identical to those specified in the first Payment Claim. The situation was extraordinary and unidentified in the work description of CDRU, thus, the manager of CDRU ruled to refrain from repeated on-the-spot check, considering that the data specified in the Payment Claim were subjected to on-the-spot check under the first Payment Claim and the on-the-spot check established that the investments had been implemented in full. The manager of CDRU provided explanations concerning the situation stated above. Meanwhile, on 13 April 2004 the Director of the Agency issued an order No. BR3-(1.7)-56 that assigned to conduct the on-the-spot check of the Payment Claim in question.

This irregularity established by the National Audit Office will be considered at the upcoming meeting with CDRU managers who will get the explanations over the actions to be taken in such a situation.

The Agency will take adequate measures to prevent any similar irregularities in future. By 1 May 2004 the Agency will conduct a random check of documents at the CDRU, which has produced the abovementioned irregularity.

5.8.3.6 The support facility is used under the rights of testing prior to the conclusion of Support Contract

Intermediate finding

The Article 8 (1(b)) of the MAFA stipulates that the expenditures sustained on or after the date of conclusion of the Support Contract shall only be eligible for support.

In one case CDRU and CD determined during the application check that the beneficiary used the support object under the rights of testing prior to the conclusion of Support Contract.

It should be noted that the beneficiary submitted the Payment Claim with a bill and customs declaration for equipment other than the installations used by the beneficiary under the rights of testing.

Amid insufficiency of work procedures applied by CDRU, CD and FAD, the FAD has not been notified about the abovementioned circumstances, thus, it has failed to make sure whether the equipment used by the beneficiary under the rights of testing at the moment of Application check was dismantled and replaced by new equipment.

Risk

The Agency, applying insufficient work procedures, may have reimbursed the investments executed by the beneficiary, which might have been dismissed as ineligible for support under the MAFA.

Recommendation

We recommend the Agency to conduct additional evaluation of all documents related with this particular case and make sure that the investments are eligible for support.

Moreover, the recommend the management of the Agency to prescribe a procedure, which would prescribe the PEU and CDRU to notify FAD in writing about all and any cases when the equipment scheduled for acquisition has been mounted for testing, while the FAD shall register the case and consider it respectively while executing its function on Payment Claim evaluation.

Agency's comments and actions

The recommendations of the National Audit Office will be considered.

5.8.3.7 Improper origin of investments and documents evidencing thereof

Intermediate finding

The Article 14 (2.7) of Section A of the MAFA prescribes that the country of origin of support object shall be a European Union member state or candidate country.

While conducting the audit, we established a case where the customs declaration enclosed to the Payment Claim specified Japan as the country of origin of a component of equipment applying for support. Despite the absence of enough proofs that the abovementioned component was not produced in the EU member or candidate countries, the specialists of PCU approved the investment as eligible for SAPARD support.

In some cases the applicant did not submit all documents (e.g., without customs declarations required), did not submit enough documents or submitted inadequate documents to confirm the origin of construction materials. The work procedures in effect at the Agency are insufficient to make sure that the building materials used (e.g., concrete, prefabricated reinforcement cage, steel, lime-and-sand bricks) comply with the country of origin prescribed under the MAFA.

Payment Claim specialists did not make sure whether the country of origin of support objects applying for reimbursement complied with the requirements of the MAFA, and approved the investments executed under the abovementioned circumstances, as eligible.

Recommendation

For cases when the country of origin of support object or a component thereof is other than EU member or candidate country, and such an investment may only be obtained from the supplier/contractor specified, we recommend the Agency to address a competent institution and inquire whether the investment complies with the requirements of origin and is available from one source only prior to approving the Payment Claim.

Moreover, we recommend the management of the Agency to confirm by 1 May 2004 the respective supplements to the work description of PCU, which will prescribe the list of documents that enable to make sure that the country of origin of materials used up for the works of construction comply with the provisions of the MAFA.

Agency's comments and actions

Considering the recommendations of the National Audit Office, the Agency will address competent institutions concerning the compliance between these investments and the provisions of MAFA in future in the event of any ambiguities related with the country of origin of the investments.

Considering the recommendations of the National Audit Office, by 1 May 2004 the Agency will confirm respective supplements to the work description of PCU, which will prescribe the list of documents that enable to make sure that the country of origin of materials used up for the works of construction comply with the provisions of the MAFA.

5.8.3.8 The Agency executed a payment under the Payment Claim after the expiry of the term prescribed in the Support Contract

Intermediate finding

The Article 4 (1) of the Support Contract prescribes that the Agency assumes an obligation to pay the SAPARD support funds to the beneficiary within three months from the submission of Payment Claim to the Regional Unit of Control Department (hereinafter referred to as CDRU).

In some cases the Agency executed payments to beneficiaries after the expiry of three-month period from the submission of Payment Claim to CDRU.

Risk

Additional financing assigned by the European Community may be reduced in cases when, as prescribed in Article 8 (6) of the MAFA, the period from the receipt of documents required for the authorization of payment, and the issue of payment order exceeds three months.

Moreover, the Agency may fail to adhere to contractual obligations to the beneficiary. Furthermore, untimely evaluation of Payment Claim and authorization of payment may affect the implementation of project.

Recommendation

We recommend the management of the Agency to ensure the adherence tot he provisions of the MAFA and the Support Contract.

Agency's comments and actions

The terms prescribed for Payment Claims were exceeded due to overwhelming workload and shortage of human resources. In 2004 PCU hired several new employees, expanding the staff to eleven officers, including the manager. In the opinion of the Agency, employment of new PCU officers will offer a possibility to pay the SAPARD support funds to beneficiaries within the terms prescribed in the MAFA and the Support Contract.

5.8.3.9 Unfounded reduction of amount specified in the Payment Claim

Intermediate finding

In several cases the specialists of PCU cut the amount of support, applied for in the Payment Claim, without any substantiation thereto:

- The amount applied for in the Payment Claim was refused as the identification of investment related with construction and installation of equipment differed in the documents evidencing the expenditures and in the Support Contract. The specialists of PCU singled this irregularity out as a reason to reject the abovementioned investment disregarding the fact that the project application file contained an official notification of AAU, which specified that the investment specified in the Payment Claim and documents validating the expenditures was identical to that specified in the Support Contract. Evaluation of commercial tenders, business plan, explanatory statements and other documents submitted by the applicant led to the conclusion that the investment executed by the applicant was identical to that specified in the Support Contract.
- Payment Claim evaluators rejected the expenditures on transportation of long-term assets as ineligible, disregarding the 30 June 1998 resolution No. 955 of Government of the Republic of Lithuania, which prescribes that the value of acquisition of long-term tangible

property shall be determined by adding the costs of delivery to the amount paid or payable to the seller of this property, and disregarding the provisions of Article 11 of Business Accounting Standard 12 Long-term Tangible Property, which prescribe that the costs of transportation shall comprise a part of expenditures, which constitute the cost price of purchase of long-term tangible assets.

- Payment Claim evaluators acted illegally when refusing to approve as eligible the works, related with the performance investments specified in the Support Contract directly.

Risk

The decisions of PCU specialists concerning eligibility of Payment Claims may not be correct and motivated adequately.

Moreover, PCU specialists may calculate and evaluate the investments eligible for support inadequately.

Recommendation

We recommend the management of the Agency to ensure that, instead of formal compliance, the specialists of PCU establish the essential compliance of investments with the provisions of Support Contract while evaluating the Payment Claims.

Moreover, we recommend the specialists of PCU to evaluate and calculate the amounts eligible for support following the provisions of legislation of the Republic of Lithuania and the Support Contract signed.

Agency’s comments and actions

On 29 March 2004 the Director of RDPD issued an official notification specifying the interpretation and use of these ineligible expenditures.

The Agency will consider the recommendations of the National Audit Office for the evaluation of Payment Claims in future.

5.8.3.10 Evaluation of Payment Claims under the projects in the Fishery Sector

Intermediate finding

Evaluation of Payment Claim in the Sector III Fishery of Measure II Improving the Processing and Marketing of Agricultural and Fishery Products, which was related with investments into the upgrade of fishing boat that exceeded 12 million LTL, has revealed the following:

- The major part of project investments, which were identified as equipment in the Support Contract and were related with the general fish processing cycle directly, covered the modernization and reconstruction of hull, reconstruction and upgrading of main and auxiliary engines;

- A part of investments, which were identified as reconstruction, covered the major repairs (e.g., of worn-out parts or parts with defects, replacement of certain hull sections with new parts);

The Agency, which did not have a PCU specialist with qualifications sufficient for the evaluation of validity and eligibility of expenditures related with the reconstruction of ship, failed to address a competent institution concerning the eligibility of those investments for SAPARD support. It should be noted that the Agency did not use its right to hire specialists, as established in the MAFA.

Risk

Absence of adequate qualification in shipbuilding and fish processing may lead to the approval of ineligible expenditures as eligible for SAPARD support by PCU specialists.

Recommendation

In cases where the competence of PCU specialist is not adequate, considering the complicacy of Payment Claim under evaluation, we recommend the management of the Agency to address a competent institution for explanations concerning the eligibility of investments for SAPARD support and use its right to hire specialists following the provisions of the MAFA.

Agency's comments

At present the Agency does not employ any specialists with qualifications sufficient for the evaluation of specific fishery projects, thus, in future the Agency will address competent institutions concerning the eligibility of investments for SAPARD support in the event of any doubts related with the evaluation of Payment Claims in this sector.

5.8.3.11 Inaccurate definition of eligible expenditures on construction and reconstruction

Intermediate finding

The officers of Agency's PEU and PCU establish the eligibility of investments following the provisions of 4 December 2001 Order No. 105 of the Director of the Agency concerning the Eligible Expenditures and subsequent amendments to the order, as well as the provisions of Support Contract.

The evaluators of PEU, following the provisions of the abovementioned orders, approve the construction and reconstruction works, dismantling, demolition and other works, leading to a rise in value of long-term assets, as eligible for support, meanwhile, the expenditures related with demolition or dismantling of existent buildings or equipment are evaluated as ineligible for SAPARD support.

Meanwhile, the specialists of PCU, following the same List of Eligible Expenditures, reject the expenditures on dismantling and demolition as ineligible in most cases whenever evaluating the eligibility of particular investment positions. PCU fails to evaluate that the reconstruction and raising of value of long-term assets is not possible without the abovementioned works.

In some cases the applicant referred to the overhaul as reconstruction. In such cases the specialists of PEU and PCU approve these investments as eligible for SAPARD support, disregarding the fact that, following the terms and definitions prescribed in the Construction Law, the applicant conducted major repairs. We may conclude, therefore, that the work procedures, which are in effect at the Agency and which are applied by PEU and PCU for the evaluation of maintenance, overhaul or reconstruction investments, are insufficient. Moreover, the Agency does not employ any specialists in this sector, who could consult PCU evaluators on the abovementioned subject.

Risk

Inaccurate definition of construction and reconstruction expenditures eligible for SAPARD support may lead to legal controversy between the beneficiary and the Agency, if PEU, for example, approves certain investments as eligible, and the specialists of PCU reject thereof as ineligible later.

Moreover, insufficient procedures may lead to reimbursement of expenditures noncompliant with the objectives and provisions of LARDP.

Recommendation

We recommend the management of the Agency to make arrangements for the supplementation of the List of Eligible Expenditures (2003-04-07 No. BR1-82) in order to ensure adequate evaluation of maintenance, overhaul or reconstruction investments by the specialists of PCU.

Agency’s comments and actions

The Agency responded to the abovementioned findings and recommendations of the National Audit Office promptly during the audit. On 7 April 2004 the Director of the Agency issued the order No. BR1-152 Concerning the Amendment of Eligible Expenditures Approved under 7 April 2003 Order No. BR1-82, and authorized relevant supplementation of the List of Eligible Expenditures.

The Agency plans to hire an specialist to be charged with consultations on construction matters. Where necessary, the specialists of PCU will address a construction specialist for consultations.

5.8.3.12 Improper application of investments to general purpose costs

Intermediate finding

In several cases the expenditures, which cannot be put into specific groups of special expenditures, have been entered into the category of expenditures directly related with implementation of certain

EU requirements and/or with a certain general manufacturing cycle. However, the operational procedures in effect at the Agency are not sufficient to make sure that specific investments may be placed into the categories of eligible expenditures as prescribed under the LARDP.

Risk

Specific expenditures, which cannot be placed in the categories of eligible expenditures as prescribed by the LARDP, may be approved as eligible for support.

Recommendation

We recommend the management of the Agency to establish the criteria to adhere to for the management of abovementioned risk, and to authorize respective supplements to the work description of FAD or the List of Eligible Expenditure (2003-04-07 No. BR1-82).

Agency's comments and actions

Considering the remarks of the National Audit Office, the Agency entered respective supplements into the List of Eligible Expenditures.

5.8.3.13 Improper insurance of assets

Intermediate finding

The work description of FAD prescribes that Payment Claims shall be rejected or turned back for completion or adjustment in cases where the beneficiary fails to insure the object of support or provides inadequate coverage.

In some cases the Agency deviated from the abovementioned provision as it failed to reject Payment Claims in the following cases:

- Some insurance policies failed to provide all the required data that could enable to make a precise identification of assets insured. The insurance certificates contained references to insurance certificate supplements, which provided a more comprehensive description of insured assets. However, these supplements have not been produced in Payment Claim files;
- the beneficiary insured a certain part of assets only;
- the support object was covered by insurance other than full replacement coverage;
- the insurance period for the support object expired at the time of detailed testing and was not extended in due time.

Risk

The Agency may not receive a part of insurance payout in the amount equal to the amount of support in the event of insured accident, which results in a destruction or irrevocable damage to the assets acquired with the SAPARD support funds.

Moreover, the control and supervision of procedures implemented by PCU staff may be insufficient.

Recommendation

We recommend the specialists of PCU to ensure proper inspection of documents related with the insurance of object of support.

Whenever facing a shortage of any data, we recommend addressing CDRU for the collection of supplementary documents, thus ensuring proper execution of PCU procedures.

Agency's comments and actions

The abovementioned recommendation of the National Audit Office has been considered. Today the Agency may ensure that the policies of insurance of investments made are provided with each Payment Claim. Where Payment Claim specialists cast any doubts concerning the insurance of investments, they address the beneficiary with a request for additional information.

5.8.3.14 Failure to adhere to the provisions of FAD work description concerning the rejection of Payment Claim

Intermediate finding

Paragraph 6.9 of work description of FAD prescribes the circumstances, under which Payment Claims may be rejected.

In several cases the specialists of PCU failed to adhere to the abovementioned provision of FAD work description and did not reject Payment Claims under the following circumstances:

- In several cases Payment Claims, which were submitted after the expiry of terms prescribed in the Support Contracts, were approved for SAPARD support, however, following the provisions of work description of FAD, the Payment Claims submitted after the expiry of term shall be rejected;
- In one case the Control Department conducted a customized check of Payment Claim and established that the quantity and quality of works performed by the beneficiary did not comply with the indices specified in the documents enclosed to the Payment Claim (violations disclosed were related with improper acquisition of materials, with the differences between the quantities of construction materials that have been evaluated, actually used and specified in the estimate, and with the use of second-hand materials). However, the Agency did not reject the Payment Claim, contrary to the requirements of FAD operational procedures, and reduced the payment (249,815LTL), considering the inconsistencies with the terms and conditions of Support Contract.

In one case the specialists of PCU failed to fill in the following documents while making a decision on the rejection of Payment Claim:

- Payment Claim evaluation report (MP 7), which should provide valid reasons for the rejection of Payment Claim, and a note of unit's manager confirming the decision concerning the rejection of Payment Claim;
- A check list for the inspection of documents of PCU manager (MP 8).

Risk

Administration of Payment Claims may be performed in derogation from work procedures prescribed and the terms and conditions of Support Contract signed.

Recommendation

We recommend PCU specialists to adhere to the procedures of FAD work description concerning the rejection of Payment Claims and reject the Payment Claim whenever it complies with at least one condition established in the FAD work description for the rejection of Payment Claims.

Moreover, we recommend obliging the beneficiary to submit a reasoned explanatory statement provided that the beneficiary's Payment Claim, which has been submitted after the expiry of term, has not been rejected. We also recommend entering respective provisions into the work description of FAD until 1 May 2004.

Agency's comments and actions

The Agency considered the recommendations issued by the National Audit Office. Work description of FAD were updated respectively during the audit.

5.8.3.15 Absence of work procedures to prescribe the actions to be taken by the Agency after the receipt of beneficiary's appeal over the rejection of Payment Claim

Intermediate finding

Evaluation of rejected Payment Claim has led to a conclusion that the Agency does not apply work procedures that would prescribe the actions to be taken by PCU after the receipt of beneficiary's appeal over the rejection of Payment Claim.

Risk

The work procedures of FAD are not sufficient, thus, in response to the appeal filed by the beneficiary, the PCU has to apply unidentified work procedures, which may lead to the adoption of unfounded decisions.

Recommendation

We recommend the FAD to supplement the work procedures with the actions to be taken by the Agency after the receipt of beneficiary's appeal concerning the rejection of Payment Claim.

Agency's comments and actions

The work procedures of the FAD have been updated following the recommendations of the National Audit Office.

5.8.3.16 Execution of functions without due authorization thereto

Minor finding

The procedures prescribed in the work description of FAD prescribe that the Director of FAD, whenever unable to carry out his or her functions, shall assign the functions to other FAD officer.

In one case the manager of Internal Accounting and Reports Unit signed a report on evaluation of Payment Claim (MP 7) and the check list for the inspection of FAD Director's documents (MP 9), thus approving the Payment Claim, without an authorization to execute the functions of FAD Director.

Risk

Operational procedures unidentified for FAD may be performed. Moreover, the Agency may fail to adhere to the procedures of substitute prescribed.

Recommendation

We recommend the Director of FAD to authorize another FAD officer in writing to carry out his or her functions, should the Director have no possibilities to execute his or her functions him or herself.

Agency's comments and actions

The Agency will ensure the adherence to the procedures prescribed for substitute following the recommendations of the National Audit Office.

5.8.3.17 Failure to differentiate execution and review functions

Minor finding

In once case the specialist of PCU, who has conducted the evaluation of Payment Claim, has signed the check list on the inspection of documents arranged by PCU officer (evaluator) (MP 6) on behalf of PCU specialist and PCU manager. Thus, the Agency has failed to differentiate the functions of execution and review.

Risk

Control procedures applied by the Agency sometime fail to ensure proper differentiation of powers.

Recommendation

We recommend the management of the Agency to ensure in all and any cases that a person who has arranged the document is not charged with the function of review thereof.

Agency's comments and actions

The Agency will ensure proper adherence to the regulations concerning the differentiation of duties, following the recommendations of the National Audit Office.

5.8.3.18 Reimbursement of investments into three stages of project implementation under a single Payment Claim

Minor finding

In one case the Agency used one Payment Claim for the reimbursement of investments carried out in three stages of project implementation. Thus, the Agency has breached the provisions of Article 5 of the Support Contract signed between the Agency and the beneficiary, which stipulate that the support shall be paid upon submission of three Payment Claims instead of one.

Risk

By authorizing a single Payment Claim, which covered three stages of project, the Agency has failed the abovementioned provision of Support Contract.

Recommendation

We recommend the Agency to follow the terms and conditions prescribed in the Support Contract for the submission of Payment Claims, or to make respective amendments of Support Contract in a timely manner.

Agency's comments and actions

The recommendations of the National Audit Office will be observed for the evaluation of Payment Claims in future. The Agency will ensure the adherence to the terms and conditions of Support Contract.

5.8.3.19 Payment of investments into different stages of project implementation under a single document validating the implementation costs

Minor finding

In several cases the beneficiary, following the provisions of Support Contract, submitted a Payment Claim asking for the reimbursement of a certain share of eligible expenditures sustained. Meanwhile, the beneficiary will apply for the reimbursement of the remaining share of expenditures, identified in the same invoice, with the following Payment Claim.

Risk

In cases where one invoice is paid up with several Payment Claims, the investment may be reimbursed repeatedly.

Recommendation

We recommend to expand the work description of FAD with procedures, which would be implemented in cases where one invoice is paid up with several Payment Claims, and which would ensure that the copies of documents, which validate the expenditures and are stored in the Payment Claim File, provide explicit identifications of relevant invoice parts and Payment Claims per each part.

Agency's comments and actions

The work procedures of the FAD have been updated following the recommendations of the National Audit Office.

5.8.3.20 Failure to provide detailed calculations of costs not eligible for reimbursement

Minor finding

In several cases the specialists of PCU reduced the payment amount requested, without providing the calculations of components of expenditures not eligible for support, however.

In once case the specialist of PCU could not repeat his calculations.

Risk

The manager of PCU fails to ensure proper supervision over the activities of subordinates and adequate review of their working documents, which may bring about the risk of making of unfounded decisions.

Recommendation

We recommend the management of the Agency to ensure the enclosure of detailed calculations of expenditures not eligible for reimbursement to the Payment Claim file in cases where the amount payable does not coincide with the amount specified in the Payment Claim.

Agency's comments and actions

The work procedures of the FAD have been updated following the recommendations of the National Audit Office.

5.8.3.21 Insufficiency of work procedures applied by FAD for the beneficiaries of IV measure

Minor finding

A typical Support Contract between the Agency and the beneficiary under the Measure IV Improvement of Rural Infrastructure does not include a condition specifying that the beneficiary shall insure the assets acquired with the SAPARD funds. Meanwhile, the Article 6.9 (2.2) of work description of FAD prescribes that Payment Claims shall be rejected in cases where the beneficiary has failed to insure the assets, the acquisition of which has been entitled for support. No exceptions on this matter are prescribed for the Measure IV.

In some cases beneficiaries of Measure IV Improvement of Rural Infrastructure did not insure the investments executed.

We have established that the Payment Claim and the check list MP6 for the inspection of documents filled in by PCU specialist under the SAPARD Measure IV Improvement of Rural Infrastructure contain a requirement to the beneficiary to submit the first Payment Claim alongside the documents evidencing the mandatory investments, which comprise 10 percent of total amount of investments, however, the work description of FAD have not provided for such a requirement.

Risk

FAD work procedures are insufficient.

Recommendation

We recommend the Agency to expand the operational procedures of FAD by 1 May 2004, approving a provision that beneficiaries of Measure IV should not be obliged to insure the investments executed (which complies with the provisions of Insurance Law).

Moreover, we recommend the specialists of FAD to shun from requiring the beneficiaries to conduct actions unidentified in the work description of the department.

Agency's comments and actions

Considering the recommendations of the National Audit Office, the work description of FAD will be supplemented by 1 May 2004.

Specialists of PCU no longer require the beneficiaries to accompany the first Payment Claim with documents evidencing the execution of 10 percent mandatory investments.

5.8.3.22 Failure to forward an information letter to the beneficiary

Minor finding

We have established several cases where the Information Letter (MP11) notifying the applicant about partial reduction of support amount, has not been forwarded, contrary to the provisions of work description of the FAD.

Risk

Failure to adhere to the procedures concerning the provision of relevant information to the applicant, as prescribed in the work description of FAD.

Recommendation

We recommend the management of the Agency to ensure the adherence to the measures prescribed in the FAD work description for the provision of relevant information to the beneficiary.

Agency's comments and actions

Considering the finding of the National Audit Office, the Agency will ensure the adherence to the measures prescribed for the provision of relevant information to the beneficiary.

5.8.3.23 Failure to ensure full compilation of Payment Claim files owing to insufficient work procedures

Minor finding

We have established that the following documents related with the administration of Payment Claim have not been put into the Payment Claim Files: Information Letter (MP11), Inquiry on the on-the-spot Check (MP12).

Risk

Control over administration of Payment Claim may not be ensured.

Recommendation

We recommend the Agency to expand the work procedures with provisions stipulating for the inclusion of MP11 and MP12 into the Payment Claim files.

Agency's comments and actions

The recommendations of the National Audit Office will be considered.

5.8.4 CONCLUSION

Except for the cases identified in the findings, we believe that the specialists of FAD execute their functions essentially adhering to the regulations prescribed by the Agency. Thus, the internal controls procedures applied to the function of payment amount determination are theoretically sound and operate satisfactorily in practice.

Payment amounts are determined in line with working procedures prescribed and in compliance with the requirements of MAFA except for the cases identified in our findings.

5.9 PAYMENT UNIT OF FINANCE AND ACCOUNTING DEPARTMENT

5.9.1 BACKGROUND

In pursuit of objectives and tasks of FAD, the Payment Unit (hereinafter referred to as the PU) has been assigned with the following functions:

- To charge the bank with execution of payment to the banking account of the beneficiary;
- To generate reports about the transfer of funds to the banking accounts of beneficiaries;
- To submit financial reports (quarterly and annual) to all regulatory and financial institutions concerned in a timely manner;

- To notify the beneficiary about the transfer of SAPARD funds to his/her settlement account in a timely manner.

As at 31 December 2003, the PU employed a workforce of 4, including the Head of the unit.

Following the work description of the Finance and Accounting Department, the structure of PU is the following:

- Head of the unit responsible for the coordination and organization of unit's activities;
- Chief specialists in charge of payment authorization.

5.9.2 DOCUMENTS REVIEWED AND DETAILED TESTING PERFORMED

While conducting the audit, we reviewed the following documents related with the PU:

- Work description of Payment Unit of the Finance and Accounting Department;
- Job profiles for various employees of the Payment Unit;
- Schemes of work procedures.

We conducted an inspection of payment procedures executed by the PU and performed independent tests over 100 Payment Claims sampled for testing.

While conducting the audit, we reviewed the following working documents entered into the Payment Claim Files sampled for testing:

- M l Official of the Payment Unit Checklists of the Summary of Payment Claim Evaluation Reports;
- M 2 The Head of the Payment Unit Payment Orders Checklist;
- MPR 3 Payment Claim Auditorial Checklists;
- M 4 Checklists for the Inspection of Payment Orders Printed out by the Director of the Agency.

Moreover, we reviewed the following working documents used for the transfer of funds and related with the activities of the unit:

- M 3 Checklists for the Inspection of Payment Orders Printed out by the Director of Finance and Accounting Department;
- M 6 Bank Statements about money transfer;
- M 8 Notifications about the transfer of funds to the beneficiary's account;

Finally, we reviewed the following document registration (accounting) books and reports generated by the unit:

- M 7 Payment Unit Activities Report;
- MP 3 Registration Book of Payment Claims.

5.9.3 FINDINGS

Our findings related with the function of payments executed by PU are provided below.

5.9.3.1 Untimely registration of payments fulfilled in the accounting books

Intermediate finding

We have established two cases when information about the executed payment of 3,159,743 LTL from SAPARD funds and the payment of 1,053,248 LTL from co-financing funds was registered in the accounting books without the bank's confirmation of payments executed. Thus, the cases revealed constitute a derogation from the procedures related with the accounting of payments paid and prescribed in the Law on Principles of Accounting and the work description of FAD.

Moreover, in several cases payments paid were entered into the accounting registers after the day of authorization thereof.

In order to ensure whether the payments paid have been reflected in the accounting books properly in the beginning and at the end of the reporting year, we included the testing of entry of payments paid in December 2002 and January 2004 into the accounting books into our audit procedures. We have made sure that the form D-2 is correct, accurate and comprehensive in this aspect.

Risk

PU may enter the payments, which have not been validated by banking documents to evidence the payment, into the accounting system.

Recommendation

We recommend the management of the Agency to ensure the accounting of payments paid following the requirements prescribed in the legislation of the Republic of Lithuania.

Considering that an identical finding was disclosed in previous year, we believe that the annual audit plan of the Internal Audit Department should be extended with audits related with proper execution of function on the accounting of SAPARD funds.

Agency's comments and actions

Considering the recommendations of the National Audit Office, we will aspire to ensure the compliance with the procedures established for the accounting of payments paid and prescribed in the Law on Principles of Accounting and FAD work description.

The PU manager who has failed to ensure proper execution of functions assigned has withdrawn from FAD by now.

5.9.3.2 Non-Convergence of identification codes of working papers with work description

Minor finding

In several cases the following identification codes of PU working documents failed to coincide with the codes set forth in the work description:

- The code specified for information about monetary funds available is M5, whereas the work description prescribe the code M3;
- The code specified for the banking extract concerning the funds transferred is M 6, whereas the work description prescribe the code M4;
- The code specified for an work report of Payment Unit is M7, whereas the work description prescribe the code M5;
- The code specified for the notification about the transfer of funds to the beneficiary's account is M 8, whereas the work description prescribe the code M6.

We have established that the unit filled in the Check List on the inspection of payment orders printed out by the Director of Finance and Accounting Department (M3) and the Check List on the inspection of payment orders printed out by the Director of the Agency (M4) in 2003, irrespective of the fact that the list of working documents to be completed, as prescribed by the work description of FAD, did not specify the above stated documents. Moreover, we established during the audit that the filling of abovementioned documents was terminated, starting from 2004.

Risk

The specialists of PU may fill in the working documents in derogation of procedures prescribed for the completion of documents in the work description of FAD.

Recommendation

We recommend the PU staff to follow the procedures prescribed for the completion of documents in the work description of FAD.

Agency's comments and actions

Starting from 2004, all documents at the PU are filled in following the FAD work description endorsed by 28 November 2003 order of the Director of the Agency and working documents of the unit.

5.9.4 CONCLUSION

Except for the cases identified in the findings, we believe that the specialists of PU execute their functions essentially adhering to the regulations prescribed by the Agency. Thus, the internal controls procedures applied to the payment function are theoretically sound and operate satisfactorily in practice.

Payments are executed following the work procedures prescribed and comply with the requirements of MAFA except for the cases identified in our findings.

5.10 Support Programmes Accounting and Reports Unit of Finance and Accounting Department

5.10.1 Background

In pursuit of objectives and tasks of FAD, the Support Programmes Accounting and Reports Unit (hereinafter referred to as SPARU) has been assigned with the following functions:

- To make timely arrangement of applications to the National Fund for obtaining the SAPARD and co-financing funds;
- To carry out debtors' accounting;
- To submit financial reports (quarterly, annual) to all regulatory and financial institutions concerned in a timely manner;
- To provide the Ministry of Finance with reports on violations in a timely manner;
- To manage the accounting of EU funds received under the SAPARD programme;
- To manage the accounting of SAPARD programme funds allocated for co-financing under the Special Programme;
- To provide financial information to other units of the National Paying Agency.

As at 31 December 2003, SPARU employed a workforce of 7, including the Head of the unit.

Following the work description of FAD, the structure of SPARU is the following:

- Head of the unit in charge of coordination and organization of unit's operations and the arrangement of reports addressed to the Commission;
- Chief specialist in charge of accounting of resources of the SAPARD and national financing fund;
- Chief specialist in charge of arrangement of Single Programming Document for Rural Development Programmes.

5.10.2 Documents Reviewed and Detailed Testing Performed

While conducting the audit of the Agency, we reviewed the following documents related with the Support Programmes Accounting and Reports Unit:

- Work description for the Support Programmes Accounting and Reports Units of Finance and Accounting Department;
- Job profiles for employees of the unit;
- Card of accounts;
- Schemes of work procedures.

We conducted an inspection of procedures applied by SPARU for the registration and accounting of payments paid via a review of working documents of this unit, which were entered into the Payment Claim Files sampled for testing:

- AA l Payment Claim Evaluation Report Checklists;
- AA 2 Summaries of Payment Claim Evaluation Reports;
- AA 5 Checklists of the Summary of Payment Claims;
- AA 6S Payment Claims for SAPARD funds;
- AA 6B Payment Claims for co-financing funds;
- MPR 3 Payment Claims Auditorial Checklists.

Moreover, we conducted a review of the following working documents related with the activities of audited unit:

- MP 3 Registration Book of Payment Claims.

While performing the audit, we reviewed the following other documents related with this unit:

- AA 3 Registers of Settlements with Creditors;
- AA 4 Checklists of the Summary on Creditors';
- AA 7 Statements of Expenditure Actually Incurred;
- AA 8 Annulled Creditor's Certificate Checklists;
- AA 11 Registers of Credit Amounts being Annulled;
- AA 13 Reports on Credit Amounts being Annulled;
- AA 26 Summaries of Credit Amounts;
- AA 19 Reports on Debit Amounts;
- AA 30 Debtors' ledger;
- AA 17 Register of Settlements with Debtors;
- AA 15 Summaries on Debit Amounts;
- AA 18 Checklists of the summary of Debit Amounts;
- AA 14 Debit Amount Certificate Checklists;
- AA 27 Reports of the Support Programmes Accounting and Reports Unit;
- AA 28 Reports of the Support Programmes Accounting and Reports Unit;

- AA 29 Reports on SAPARD and co-financing funds planned to be paid out;
- AA 31 Working Reports of the Support Programmes Accounting and Reports Unit;
- AA 32 Report on irregularities Committed.

5.10.3 FINDINGS

Our findings concerning the function of payment registration and accounting implemented by SPARU are provided below.

5.10.3.1 Untimely accounting of support amount not eligible for reimbursement

Intermediate finding

We have established that in cases where the beneficiary submits a Payment Claim asking for the amount of support below the amount specified in the Support Contract or the Agency refuses to reimburse a certain share of investments that are declared ineligible for SAPARD support, the accounting system of the Agency shows the reduction in the amount of creditor liability and the funds scheduled for payout, with the above reduction resulting from a difference between the amount of support set forth in the Support Contract and the amount actually paid, after the authorization of the last Payment Claim only.

Risk

MOA and NFD may be provided with inaccurate data concerning the accounts payable by the Agency and the amounts scheduled for payouts.

Recommendation

We recommend the management of the Agency to ensure a timely registration of reduction in the amount of support, compared with the Support Contract, in the Agency’s ledgers in all cases. Moreover, we recommend to carry out respective adjustments of Navision Financials accounting software.

Agency’s comments and actions

Creditor liability concerning the payment of certain amount of support to the beneficiary is registered from the moment of signing of Contract. The following step is the evaluation of Payment Claims, which may dismiss a certain share of investments as ineligible for support; accordingly, the amount scheduled for payout may be slightly higher than the amount paid under the tai Payment Claim. The difference is not significant because, following the order of Director, the creditor liability is annulled in the accounting system immediately upon termination or closeout of Support Contract signed with the beneficiary. Accordingly, the amount of funds scheduled for payout declines respectively.

These findings will be considered for the establishment of Finance and Accounting System for the guarantee section of EAGGF (for Rural Development measures in particular), and the creditor liability will be registered upon the submission of Payment Claim.

It should be noted that the findings and recommendations of the National Audit Office, related with the activities of FAD on administration of Payment Claims, authorization of payments and accounting of EU and co-financing funds, were considered at all units of FAD.

5.10.3.2 Absence of possibilities to compile a summary of reports on evaluation of payment claims pursuant to the figures of payments effectuated

Minor finding

We have established that the accounting software Navision Financials does not provide a possibility to compile a summary of reports on evaluation of Payment Claims, which would rank the payments according to the date of authorization thereof. Such a summary could be collated with the Annual Declaration of Expenditures and used for audit sampling.

This finding was singled out in previous financial year as well.

Risk

The Agency fails to draw up a report to rank the payments according to identification numbers of Payment Claims.

Recommendation

We recommend the SPARU to consider a possibility to compile a summary of reports on evaluation of Payment Claims, which would rank the payments according to the date of authorization thereof.

Agency's comments

We may assure that a possibility to compile a summary of reports on evaluation of Payment Claims, which would rank the payments according to the date of authorization thereof, will be considered.

5.10.4 CONCLUSION

Except for the cases identified in the findings, we believe that the specialists of SPARU execute their functions essentially adhering to the regulations prescribed by the Agency. Thus, the internal controls procedures applied to the function of registration and accounting of payments paid are theoretically sound and operate satisfactorily in practice.

Registration and ongoing accounting of payments paid is conducted in adherence to the work procedures prescribed and complies with the requirements of MAFA except for the cases identified in our findings.

5.11 ADMINISTRATION OF SUPPORT MEASURE ON VOCATIONAL TRAINING

5.11.1 BACKGROUND

Consultations with the European Commission has led to certain changes in the administration of Measure VII Vocational Training of Appendix II of LARDP, i.e., the Ministry of Agriculture (hereinafter referred to as MOA) took over the title of SAPARD programme beneficiary and certain functions of administration from 1 January 2003. MOA has been assigned with the following functions:

- To select the suppliers of training services via public procurement tenders (organization of public procurement tender, examination and evaluation of bids);
- To conclude contracts with winning bidders;
- Settlements for training services provided;
- Provision of Agency with copies of payment claim specifying the amount eligible for support and the expenditures sustained, and the documents validating the expenditures.

5.11.2 DOCUMENTS REVIEWED AND DETAILED TESTING PERFORMED

While conducting the audit, we reviewed the following documents related with the Support Measure Vocational Training:

- The agreement between the Agency and MOA concerning the administration of SAPARD programme Measure Vocational Training (2003-12-19, No. TPS 5-195/554);
- Regulations on control over services provided by training service providers under the SAPARD support Measure Vocational Training and over the utilization of funds assigned (as endorsed by 31 December 2003 order No. 3D-570 of the Minister of Agriculture);
- 23 December 2002 Order 516 of the Minister of Agriculture Concerning the Provisions Governing the Selection of Training Service Providers under the SAPARD Support Measure Vocational Training;
- Project administration procedure No. SD P7-2-01;
- Minutes of meetings of the commission charged with evaluation of MOA training service providers under the SAPARD support Measure Vocational Training and appendices of minutes, including but not limited to procurement tender documents, evaluation summaries, etc.

We evaluated whether the tenders on procurement of training services were organized and the winning bidders were selected pursuant to the regulations established by the MOA. Moreover, we checked the compliance with procedures prescribed for the administration of projects and Support Contracts drawn up by the Agency's AAU.

With a supplement to LARDP, which appointed MOA the beneficiary, coming into effect on 1 January 2003, a total of 37 Support Contracts were signed with the Agency, however, the Agency used the funds of SAPARD programme for the reimbursement of expenditures of the beneficiary (MOA) under one project only.

In order to evaluate whether the administration of SAPARD Support Measure Vocational Training was conducted in line with the provisions of MAFA and LARDP, we selected five projects, which were approved as eligible for assistance by the commission established by the Minister of Agriculture and paid up by MOA (the beneficiary) in 2003 (the criteria of selection were the projects finalized and the maximum amount), and the only Payment Claim paid by the Agency.

We conducted a detailed testing of control procedures and projects samples in order to make sure that the procedures of control were effective when applied for the administration of Measure, and the declared expenditures on the provision of services were validated by adequate documents.

While conducting the testing and independent audit procedures, we reviewed the following documents put into supervision files of projects sampled for testing:

- Adjustment documents concerning the allocation of funds to the Support Measure Vocational Training;
- Public procurement tender documents;
- Technical and financial bids;
- Evaluation conclusion;
- MOA contracts with service providers concerning the acquisition of training services;
- Support Contracts signed between the Agency and MOA;
- Documents to validate the expenditures;
- Agency's working documents related with the evaluation and authorization of Payment Claims.

5.11.3 FINDINGS

Our findings related with the administration of support measure on Vocational Training are provided below.

5.11.3.1 Failure to conclude an agreement between the Agency and the Ministry of Agriculture concerning the procedures of differentiation of administration functions and control

Intermediate finding

MOA has been the beneficiary of SAPARD Support Measure Vocational Training since 1 January 2003. However, until 19 December 2003, the Agency failed to conclude with MOA an agreement on joint administration, which would provide for explicit differentiation of administration functions (including settlements) and the procedure of control.

Risk

Failure to ensure explicit differentiation of joint administration functions, to prescribe and implement the procedures of control may lead to the utilization of SAPARD programme funds in derogation of requirements set forth in the Article 14 (2.3.1 – 2.3.8) of Section A of the MAFA.

Recommendation

The National Audit Office recommended the Agency and MOA to conclude a contract on joint administration of Support Measure Vocational Training.

Actions and comments of Agency and Ministry of Agriculture

The recommendations of the National Audit Office have been considered:

- On 19 December 2003 the Agency concluded a contract with MOA, which differentiated the functions of administration and established the control procedure;
- On 31 December 2003 MOA approved the procedures for control over the Support Measure Vocational Training.

5.11.3.2 Failure to evaluate the validity of training service tariffs

Intermediate finding

MOA does not require the service provider to submit an extensive estimate of costs on the provision of training services for the signing of contracts on provision of training services under the Support Measure Vocational Training, i.e., the beneficiary does not evaluate the relevance of prices set for the provision of training services.

Following the procedures prescribed, the Agency does not evaluate the relevance and validity of abovementioned costs contenting itself with the availability of respective invoice and documents evidencing the payment.

Risk

Acquiring the training services under the abovementioned terms and conditions does not enable MOA to ensure cost-saving and effective utilization of SAPARD funds.

Recommendation

We recommend the MOA to supplement the procedure arranged for the control over the Support Measure Vocational Training with provisions prescribing the evaluation of relevance of prices set for the training services acquired.

Actions to be taken by the Agency and the Ministry of Agriculture

The recommendations of the National Audit Office will be considered.

5.11.3.3 A specific term omitted in the support contract

Minor finding

Deviating from the requirements of work procedures, the Agency has concluded with MOA a total of 37 support contracts on the Support Measure Vocational Training, which omit a requirement that the MOA (the beneficiary) shall ensure the adherence to the procedures, terms and conditions set forth in the Community's methodology concerning the Contracts on services, goods and works concluded by the Community for cooperation with third parties.

Risk

Failure to establish an obligation to adhere to the abovementioned condition in the Support Contract brings about a risk that the expenditures may not comply with the provisions under the MAFA.

Recommendation

We recommend the management of the Agency to make arrangements for the expansion of Support Contracts with a provision that will oblige the beneficiary to adhere to the procedures established in the Community's methodology concerning the Contracts on services, goods and works concluded by the Community for cooperation with third parties.

Actions to be taken by the Agency and the Ministry of Agriculture

Considering the findings specified, the Agency will supplement the Support Contracts that have been signed inadequately.

5.11.3.4 Failure of Agency to exert control over the measures administered by the Ministry of Agriculture

Minor finding

In 2003 the MOA administered the Support Measure Vocational Training without relevant control procedures in effect. It should be noted that the Internal Audit Department and the Control Department of the Agency failed to ensure the regularity and efficiency of measure, jointly administered by MOA and the Agency, in 2003.

Risk

Improper costs may be covered.

Recommendations

The National Audit Office recommended MOA to arrange and approve the control procedures for the administration of Support Measure Vocational Training.

Actions taken by the Agency and the Ministry of Agriculture

On 31 December 31 the Minister of Agriculture issued the order No. 3D-570 to confirm the regulations for control over the services provided by Training Service suppliers under the SAPARD Programme Trend Vocational Training and the use of funds assigned for the purpose.

5.11.3.5 Reimbursement of training costs under incomplete documents

Minor finding

In one case the Agency paid a Payment Claim submitted by MOA, although the Payment Claim was submitted with lists of participation in training that had not been signed by students.

Risk

A PCU specialist charged with evaluation of Payment Claim made a decision concerning the payment for training services without sufficient proofs that the training had been arranged.

Recommendation

We have recommended the Agency to obtain proper proofs that the training services have been provided.

Actions taken by the Agency and the Ministry of Agriculture

Lists signed by students have been submitted.

5.11.3.6 Improper filling of accounting documents

Minor finding

In some cases the documents evidencing the costs of service providers have been submitted to MOA without all legal particulars required, i.e., the date the documents were drawn up has not been specified.

Risk

Expenditures sustained prior to the signing of contract on procurement of training services may be covered.

Recommendation

We recommend MOA to settle payments for the procurement of training services solely under the adequate documents evidencing the costs.

Comments and actions taken by the Agency and the Ministry of Agriculture

The recommendation of the National Audit Office has been considered.

5.11.4 CONCLUSION

Considering the findings disclosed, we believe that the internal control procedures related with the administration of Support Measure Vocation Training were not approved until 19 December 2003 (i.e., were theoretically ineffective) and were implemented unsatisfactorily in practice.

5.12 INFORMATION TECHNOLOGY DEPARTMENT

5.12.1 BACKGROUND

Information Technology Department (hereinafter referred to as the IT Department) is directly subordinate to the Director of the Agency. The objectives of the IT Department are the following:

- To develop and improve the Agency's information system considering the requirements imposed;
- To administer the Agency's information system striving to assure the reliable functioning thereof.

In pursuit of objectives of the IT Department, the Systems Development Unit is assigned with the following functions:

- To develop and improve computer information system of the Agency;
- To administer the Agency's IS assuring reliable functioning thereof;
- To arrange a strategy for the development of Agency's IT and implement thereof;
- To determine IS demands via the analysis of Agency's processes of operations and information exchange;
- To draw proposals for better and more efficient use and installation of operating IS;
- To design new IS of the Agency considering the requirements established for the processes of information movement and processing, the latest technological solutions and systems;
- To organize the development and installation of IS, as well as to organize the testing of IS in development and improve the functioning of IS with consideration of errors disclosed;
- To modify the IS with respect to needs identified;
- To ensure the protection of databases developed pursuant to the requirements prescribed in the legislation of the European Union and the requirements of the European Union, to ensure secure and continuous functioning of IS;
- To draw up technical documents for the procurement of hardware and software;

- To accumulate and systematize the materials related with the Agency's IS;
- To install software at computerised work places and servers;
- to ensure proper security of servers and information stored thereat;
- To remove all and any IS faults and eliminate shortcomings as soon as possible;
- To provide the officers of the Agency with consultations concerning the use of hardware and software;
- To delegate representatives to take part in the work of task groups established by the Agency.

As at 31 December 2003, the IT Department employed a workforce of 10, including the Director of Department. Following the work description of IT Department, the structure of this department is the following:

- IT Department Director;
- Systems Development Unit manager;
- Systems Development Unit principal experts;
- Systems Administration Unit manager;
- Systems Administration Unit principal experts.

5.12.2 DOCUMENTS REVIEWED AND DETAILED TESTING PERFORMED

While conducting the audit, we reviewed the following documents related with the IT Department:

- IT Department work description;
- IT strategy;
- IT security conception;
- IT work supervision procedure;
- IT security organization procedure;
- Specifications for accounting, audit and bank modules.

We conducted a review of evaluation of compliance of information technology activities and legislation, the evaluation of differentiation of functions at the IT Department under the COBIT methodology, the evaluation of Navision Financials control tools, the evaluation of assurance of operating continuity under the COBIT methodology and the evaluation of IT audit conducted by the Internal Audit Department.

Moreover, we conducted a review of computer security following the requirements of the MAFA, the Commission Recommendation No. VI/661/97 rev2. and SAPARD ICT (Information and Communications Technologies) Guideline No. 3.

The matters related with the implementation of IT functions and computer security were tackled at a meeting with IT Department Director.

Finally, we reviewed the implementation of recommendations provided during the previous audits.

5.12.3 FINDINGS

Our findings related with the IT Department are provided below.

- While conducting the testing procedures, the Agency failed to coordinate the regulations on data security and the provisions on information systems developed with relevant institutions, thus deviating from the procedures prescribed by legislation in effect in Lithuania.

  Agency's comments and actions

  The regulations on data security and the information system provisions are currently being coordinated with relevant institutions. On 17 March the Agency issued a rescript No. BR6-(9.2)-1018 addressed to the Information Policy Department of the Ministry of the Interior and related with the coordination of draft regulations on data security. The remarks were received in writing on 31 March 2004, which enabled the Agency to initiate the arrangement of the final version of regulations. On 9 April the Agency issued a rescript No. BR6-(9.2)-1505 forwarding the information system provisions for coordination to the Information Policy Department of the Ministry of the Interior, the Information Society Development Committee, State Data Protection Inspectorate, public establishment Agricultural Information and Rural Business Centre, public establishment Register Centre and public establishment National centre of Remote Sensing and Geoinformatics.
- The Agency has differentiated the functions of IS development and IS administration, failing, however, to single out the functions of IS administrators. Failure to segregate discordant functions of IS administrators and absence of self-control mechanism raises the risks related with IS security because IS administrators may access all and any vulnerable parts of the system.

  Agency's comments and actions

  Discordant functions of IS administrators are expected to be differentiated up until the end of 2004 after the approval of the required additional number of jobs.
- Certain modifications to the Navision Financials programme, made by the Agency and related with the registration of payment dates, do not prevent malevolent entry of misleading data, however, they do reduce the probability of accidental errors.

Agency's comments and actions

The modification made has not been the result of decision adopted by the IT Department. Instead, the IT Department and FAD have decided to refrain from the installation of feedback to the banking programme Telehanza as such an integration could not be automated in full because the banking programme is supplied by the bank, which does not provide any possibilities of software adjustments. The Department has ruled to install a supplementary system of notifications, which is activated during the registration of payment orders and reminds an officer to check the compliance of records with primary documents.

5.12.4 CONCLUSION

The procedures of computer security applied at the Agency comply with the accreditation criteria prescribed in the MAFA.

5.13 INTERNAL AUDIT DEPARTMENT

5.13.1 BACKGROUND

Internal Audit Department (hereinafter referred to as IAD) is an independent several structural unit. IAD is directly subordinate to the Director of the Agency. The Department is composed of three units: the Support Audit Unit, the Activity Audit and Planning Unit and the Delegated Functions Implementation Audit Unit.

The objectives of IAD are the following:

- To carry out independent, unbiased and objective tasks of investigation, evaluation and consulting, in order to contribute to the improvements in the activities of the Agency;
- To contribute to the boosting of efficiency of Agency's operations, to implement its business strategy, plans, programmes and procedures, and to reveal the reserves for the development of activities and continuity thereof.
- To provide the management of the Agency with relevant information, analytical materials, evaluations, recommendations and counsels related with the activities checked.

In pursuit of objectives assigned, IAD has been charged with the following tasks:

- To evaluate and provide the Director of the Agency with unbiased and relevant information concerning the adequacy and efficiency of Agency's internal control system, responsible approach towards the activities that shall be performed in line with laws and other legislative acts, reliability and comprehensiveness of information on financial and other activities, and the achievement of objectives and tasks set forth.

- To provide the Director of the Agency with unbiased and relevant information concerning the potential operating risks.
- To carry out supervision over the efficiency, effectiveness, cost saving and productivity of administration of national support funds, resources obtained from the EU or other funds, and the utilization of the above funds.
- To carry out supervision over the efficiency, effectiveness, cost saving and productivity of administration of EU Structural Funds, measures of Common Agricultural Policy and Rural Development, and the utilization of funds.
- To carry out supervision of adequacy of implementation of delegated functions by respective institutions, to carry out supervision over the efficiency, effectiveness, cost saving and productivity of utilization of budget funds allocated to the Agency.

As at 31 December 2003 the department employed a workforce of 12, including the Director of department.

The structure of this department is the following:

- IAD Director;
- Support Audit Unit manager;
- Support Audit Unit principal experts;
- Activity Audit and Planning Unit manager;
- Activity Audit and Planning Unit principal experts;
- Delegated Functions Implementation Audit Unit manager;
- Delegated Functions Implementation Audit Unit principal experts.

5.13.2 DOCUMENTS REVIEWED AND DETAILED TESTING PERFORMED

While conducting the audit, we reviewed the following documents related with the Internal Audit Department:

- Internal Audit Manual;
- Strategic audit plan for 2000-2003;
- Annual audit plan for 2003;
- Annual audit plan for 2004;
- Training plan for Internal Audit staff for 2002 and 2003;
- Audit of comprehensiveness, fairness and timeliness of financial reports concerning the European Union funds;
- Audit of administration of SAPARD support according to individual projects;
- Audit of control environment and procedures at Control Department;

- Audit of compliance of amendments to work description, related with the recommendations of the Certifying Body, with the provisions of the MAFA;
- Job profiles in effect at the Internal Audit Department;
- Other internal audit reports submitted for 2003.

We evaluated the activities of IAD targeting the assurance of effective operations of internal control systems in effect at the Agency.

We reviewed audit reports related with the administration of SAPARD programme and conducted in 2003. While conducting the audit, we carried out an extensive review of working documents related with administration of SAPARD. Moreover, we met with Director of Internal Audit Department for the consideration of audit methods and methodologies applied for internal audit tasks performed. Finally, we considered the irregularities observed during the audit procedures related with SAPARD.

5.13.3 FINDINGS

Our findings related with the function of internal audit are provided below.

5.13.3.1 Improper arrangement of strategic and annual plans

Intermediate finding

We have established that the strategic audit plan for 2001-2003 is neither explicit nor specific. The analysis of Strategic Audit Plan does not clarify whether the requirements of Article 14 (2.5) of Section A of Appendix to the MAFA will be implemented, i.e. the requirement to inspect all core sectors, including the units and services responsible for approval and the institutions assigned with certain functions, within a period not exceeding three years.

The strategic audit plan arranged has not been updated in time, i.e., its relevance has not been ensured.

While conducting the audit, we observed that the working procedures in effect at IAD did not prescribe the term for the arrangement of IAD strategic plan. Moreover, we established that IAD experts lacked experience and knowledge required for the arrangement of high quality strategic plan.

Risk

The strategic plan of IAD may be drawn up inadequately and fail to comply with the objectives of IAD as prescribed under the MAFA. Accordingly, the efficiency of overall control system may not be ensured.

Recommendation

We recommend to review the strategic audit plan each year and, where required, to update the document.

Moreover, we recommend to inspect all remaining core sectors in 2004 in order to ensure compliance with the MAFA requirements.

Finally, we recommend to offer an officer in charge of arrangement of strategic plan a possibility to acquire the qualification required for the drawing up of plans.

Agency's comments and actions

Following the sample internal audit methodology, approved under the 2 May 2003 order No. 1K-117 of the Minister of Finance, the annual audit action plan shall be coordinated with the Director of the Agency by 1 February at the latest. However, the legislative acts in effect in the Republic of Lithuania and the European Union do not govern the terms on arrangement of strategic audit plan. The strategic audit plan of IAD was updated considering the process of works, procedures and documents arranged at the Agency, and was approved by the Director of the Agency on 30 December 2003.

5.13.3.2 Insufficient quality of IAD Action Plan for 2004

Intermediate finding

The annual action plan for 2004 fails to prescribe the audits of SAPARD programme.

Risk

IAD may not conduct the audits of SAPARD programme in 2004 and, accordingly, will fail to implement the requirements prescribed under the MAFA.

Recommendation

We recommend to update the IAD 2004 action plan forthwith, expanding the action plan with the audits of SAPARD programme.

Agency's comments and actions

On 30 December 2003 the Agency confirmed a strategic action plan prescribing the audit of SAPARD programme.

5.13.3.3 Failure to consider the findings by IAD with the Agency's management and to integrate thereof into the audit reports

Intermediate finding

In some cases the findings disclosed during the audit procedures conducted by Internal Audit Unit staff have neither been considered with the Agency's management nor entered into audit reports.

Risk

The management and other officers of the Agency may not be familiarized with all findings of internal auditors. Failure to publicise the findings may bring about a risk that identical shortcomings are not prevented in future.

Recommendation

We recommend to consider all findings disclosed during the audit with the management, to provide the management's remarks and enter the findings disclosed into the internal audit reports.

Agency's comments and actions

This recommendation was considered at a meeting of IAD staff in February 2003. The recommendation was tackled repeatedly at the meeting of IAD staff held on 10 February 2004.

5.13.3.4 Failure to adhere to the requirements prescribed in the Internal Audit Manual

Minor finding

In several cases requirements set forth in the Internal Audit Manual have been ignored. The Manual prescribes the typical forms of documents. Meanwhile, some typical forms prescribed in the Internal Audit Manual are not completed.

Moreover, the Internal Audit Manual stipulates that reports should be assigned with a particular rating (according to the ratings range prescribed), which is not implemented, however.

Risk

Improper documentation of audits conducted by IAD.

Recommendation

The National Audit Office has recommended to approve an updated Internal Audit Manual forthwith.

Agency's comments and actions

On 4 February 2004 the Director of the Agency issued the order No. BRI-036 confirming the Internal Audit Department Manual, which is currently submitted to Ernst & Young Baltic UAB for review. All audit procedures performed will be documented under the abovementioned Manual.

5.13.3.5 Terms for the elimination of shortcomings revealed during the audit

Minor finding

The management of the Agency has failed to identify the terms to eliminate certain shortcoming disclosed.

Risk

The elimination of shortcomings disclosed might drag out.

Recommendation

We recommend to set forth the terms for elimination of shortcoming observed.

Agency's comments and actions

Following the provisions of legislative acts, IAD prescribes general terms for the elimination of shortcomings, categorizing the findings as major, intermediate and minor. Specific terms are established by the management of the Agency. Considering the finding above, we will recommend the management of the Agency to prescribe possible terms for the elimination of shortcomings, which would be deemed optimal by IAD.

5.13.3.6 Audit procedures performed by IAD to all intents and purposes fail to comply with the audit plan for 2003

Minor finding

The National Audit Office has established that some audit procedures scheduled for 2003 have not been conducted. Some audit procedures, which have not been prescribed in the 2003 audit plan, were conducted under respective assignments of the Director of the Agency.

Risk

IAD fails to implement the annual audit plan, which poses a risk of insufficient control over execution of IAD activities.

Recommendation

We recommend to conduct the internal audit activities pursuant to the annual audit plan. Moreover, we recommend the management of the Agency to consider and evaluate the execution of IAD plans.

Agency's comments and actions

Following the agreements with the management of the Agency, annual audit plans should be modified in exceptional cases only. The 2003 audit plan was modified twice. Under a respective decision of the Director of the Agency, IAD has been obliged to ensure strict adherence to the plan of 2004 confirmed.

5.13.3.7 Failure to draw an IT audit plan for 2003 and improper arrangement of internal audit plan for 2004 concerning the audit of IT systems

Intermediate finding

IAD has failed to draw up a special 2003 IT audit plan. The annual audit schedule for 2004 does provide for the audits of IT systems, without specifying, however, the IT audits to be conducted and the officers to perform the procedures. The Agency has not yet made up its mind whether the

IT audit should be conducted by external auditors hired for the purpose or by a specific IT audit expert to be employed.

Risk

The works carried out by Internal Audit failed to cover the risks related with IT.

Recommendation

Considering the importance of the matter, we recommend the management of the Agency to make a decision concerning the officers to conduct the IT audit.

Moreover, we recommend IAD to draw up a detailed plan for 2004 audit of IT systems.

Agency's comments and actions

Following the 2003 PHARE project No. 2002/000.601.01.01, the Agency has arranged a technical task and will conduct an audit in pursuit of objectives on Improvement of IT Security at the National Paying Agency.

5.13.3.8 Recruitment of new IAD personnel disregarding the requirement prescribed in the job profile

Minor finding

The procedures applied for the employment of new officers in 2003 failed to ensure the adherence to the requirements of job profiles in effect concerning the at least three-year record of work at in the sphere of control.

Risk

IAD may hire experts without relevant qualifications in the sphere of audit, which may brings about a risk of improper quality of activities.

Recommendation

We recommend to evaluate new candidates to vacancies at IAD via application of requirements established in job profiles.

Agency's comments and actions

The requirement of the Law on Internal Control and Internal Audit, which prescribes at least 2-year record of work in the sphere of audit or internal audit, is only applicable to the manager of Internal Audit Unit, meanwhile, the work experience of internal auditors is not governed by legislation. Following the job profiles in effect in 2003, certain categories of public officer were subjected to the requirements of at least one-year (category 9 and 10) or two-year (category 11) record of work at a control service.

5.13.3.9 Failure of IAD to observe the implementation of recommendations provided by external auditors

Minor finding

The List of Recommendations, i.e., the document arranged by IAD, monitors the implementation of recommendations by internal auditors only.

Risk

IAD may not ensure the boosting of effectiveness of the internal control system applied within the Agency.

Agency's comments and actions

The findings of external auditors have been included into the general list of recommendations without singling thereof out. We will consider this finding while compiling the Lists of Recommendations.

5.13.4 CONCLUSION

Except for the cases identified in the findings, we believe that the experts of IAD execute their functions essentially adhering to the regulations prescribed by the Agency. Thus, the internal controls procedures applied to the function of internal audit are theoretically sound and operate satisfactorily in practice.

The activities of IAD ensure the operation of internal control systems of the Agency pursuant to the requirements of the MAFA.

6. REVIEW OF COMPLIANCE WITH ACCREDITATION CRITERIA

This section of Report deals with the legal foundation for the accreditation of the Agency and the evaluation of compliance of the Agency and NFD with the criteria of accreditation.

6.1 BACKGROUND

Pursuant to the provisions of the MAFA, candidate countries shall accredit the Agency with execution of payments from the funds of SAPARD programme. The European Commission, which has awarded to the Agency the right to administer the funds and the needs of SAPARD programme, has the right to conduct a review of accreditation. The national accreditation of the Agency in Lithuania, which provided the Agency with the right to administer the funds of SAPARD programme, was confirmed on 29 June 2001. On 26 November 2001 the European Commission awarded the Agency with the right to administer the funds of SAPARD programme.

To obtain the accreditation and the right to manage the funds of the SAPARD programme, the Agency shall comply with the criteria related with the following major functions:

- Authorisation of payments;
- Execution of payments;
- Accounting for payments;
- Control.

Accreditation criteria are set forth in the Article 14 of Section A of the MAFA.

6.2 AGENCY ACCREDITATION

A review of compliance with accreditation criteria for the year 2002 has been conducted by PriceWaterhouseCoopers UAB. The main findings of auditors related with the compliance with accreditation criteria were as follows:

- Written procedures – in some cases the written procedures applied have been insufficient;
- Segregation of duties – no major findings have been specified;
- Pre-payment checks – in some cases the written procedures prescribed have not been followed;
- Payment and accounting procedures – in some cases payments to applicants have been entered into the accounting system prior to actual payment;
- IT security – failure to draw up a Business Continuity Plan;

- Debtors' accounting – no major findings have been specified.

Alongside the abovementioned findings the Agency has received relevant recommendations. The evaluation of implementation of the said recommendations is provided in Section 8. While conducting the audit, we concentrated on recommendations that were related with compliance with accreditation criteria and that had not been implemented.

Moreover, while conducting the audit we considered the findings and recommendations of other external auditors who visited the Agency and the National Fund in 2003. The findings and recommendations of abovementioned missions were provided to us in the documents specified in Table 6.1.

Several representatives of the European Commission visited the Agency and the NFD of the Ministry of Finance on 2-6 June 2003. In January 2004 the National Authorizing Officer provided the National Audit Office, which is the Certifying Body, with a rescript of the European Commission, dated 11 December 2003, which singled out the spheres the National Audit Office should consider during the audit for the year 2003.

Moreover, auditors from the European Court of Auditors visited the Agency on two occasions in 2003. In December 2003 those auditors forwarded to the National Authorizing Officer a statement with findings concerning the implementation of SAPARD programme in Lithuania.

Table 6.1

Statements provided by external auditors (authorized institutions of European Community)

Nr.	Sender (institution/ person)	Document	Document sent on	Document No.	Document received on
1	European Commission, Directorate General for Agriculture / J. M. Silva Rodriguez	Findings of auditors who took part in the audit mission of 2-6 June 2003 concerning the implementation of SAPARD in Lithuania (concerning the execution of functions of the Certifying Body for the SAPARD programme)	11 December 2003	D(2003) / HS / PV / PJ kw 36914	12 January 2004
2	European Commission, Directorate General for Agriculture / J. M. Silva Rodriguez	Findings of auditors who took part in the audit mission of 8-12 September 2003 concerning the implementation of SAPARD programme in Lithuania (concerning the implementation of recommendations set forth in the European Commission rescript)	6 January 2004	D (2003) 39773	30 January 2004
3	European Commission, Directorate General for Agriculture / V. Hurtado Roa	A letter over SAPARD programme sector by the European Court of Auditors	23 December 2003	J 1/VHR D(2003) md / 42231	24 December 2003

6.3 Review of Compliance with Accreditation Criteria in 2003

6.3.1 Work performed

While conducting the audit we performed a review of compliance of the Agency and the National Fund with the accreditation criteria. Moreover, we reviewed the reports generated by PricewaterhouseCoopers UAB and Internal Audit Department, as well as the minutes of meetings of Supervisory Committee. We considered the findings and recommendations set forth in documents specified in Table 6.1.

We inspected the condition of Information Technology security following the provisions of Commission's Guideline VI/661/97.

Moreover, we evaluated the work performed of Internal Audit Department as related with efforts to ensure the compliance between the internal control system and accreditation criteria.

6.3.2 Findings and Recommendations

A summary of our findings related with the compliance with accreditation criteria is provided below:

- The Agency fails to ensure timely implementation of recommendations of external and internal auditors concerning the improvement of internal control procedures;
- In some cases the written procedures applied by the Agency have been insufficient and unidentified procedures have been executed;
- In some cases the functions of evaluation and review of works performed have not been segregated;
- In some cases the Agency has failed to adhere to the written procedures prescribed;
- In some cases payments to applicants have been entered into the accounting system prior to real authorization thereof.

A detailed description of these findings and our recommendations are set forth in Sections 5 and 8.

6.4 Conclusions

Despite the findings stated above, we believe that there are no reasons to recall the accreditation.

7. PROTECTION OF COMMUNITY FINANCIAL INTERESTS

This section of Report deals with the results of audit tasks related with prepayments and assurances, debtors, SAPARD euro account and the national co-financing contribution. We have conducted tests and obtained proofs, which enabled to generate sufficient, adequate and reliable audit evidence that the financial interests of the Community are protected properly, as required under the MAFA. While conducting the audit, we considered the relevant recommendations of external auditors as well.

The Financial Crime Investigation Service under the Ministry of the Interior, responsible for cooperation with OLAF, has been charged to ensure the disclosure and investigation of criminal deeds and other offences related with the receipt and utilization of funds from the financial support of the European Union. According to the data provided by FCIS (as at 23 March 2004), service conducts nine prejudicial inquiries related with attempts to obtain or use the funds of SAPARD support illegally. The prejudicial inquiry and the criminal case initiated under one of abovementioned cases have already been closed. It should be noted that the required information was shared throughout the audit following the provisions of cooperation agreement signed between the National Audit Office and FCIS.

7.1 PREPAYMENTS AND ASSURANCES

The Agency neither issued any prepayments nor granted (received) any assurances in 2003.

7.2 DEBTORS

7.2.1 WORK PERFORMED

While conducting the audit, we carried out a number of audit procedures related with the following:

- Evaluation of procedures prescribed in the work description of Finance and Accounting Department;
- Analysis of administration tasks and control documents;
- Evaluation of procedures applied for the determination of debtors and inclusion thereof into the Debtors' ledger;
- Evaluation of procedures for the suspension of payments to debtors and adequate registration of arrears' recovery;

- Evaluation of Agency's actions taken with respect to the recovery of Debtors' arrears.

While conducting the audit, we reviewed the following documents related with the debtors' accounting:

- Work description for SPARU;
- Work schemes;
- AA 30 Debtors' Ledger;
- SA 11 Summaries of Projects under Implementation;
- SA 13 Support Contract Termination Certificates;
- AA 14 Debit Amounts Certificate Checklists of the Support Programmes Accounting and Report Unit official responsible for accounting of SAPARD funds;
- AA 15 Summaries on Debit Amounts;
- AA 16 A check list for the summary of amounts receivable arranged by the manager of Support Programmes Accounting and Reports Unit;
- AA 17 Register of Settlements with Debtors;
- AA 18 Checklists of the summary of Debit Amounts of the Head of the Support Programmes Accounting and Reports Unit;
- AA 19 Reports on Debit Amounts (annual);
- AA 32 Report on irregularities Committed;
- AA 33 Rescript (claim).

Detailed data of Agency's Debtors' Ledger are specified in Table 7.1.

Table 7.1

Data from the Debtors' Ledger of the Agency

	LTL	**EUR**
The remaining arrears of Debtors as at 1 January 2003	**-**	**-**
Accrued in 2003 in total, including:	**203,642**	**58,972**
Co-financing contribution	49,706	14,394
SAPARD contribution	149,118	43,183
Default interest	4,818	1,395
Recovered during the audited period in total, including:	**38,786**	**11,234**
Co-financing contribution	9,697	2,809
SAPARD contribution	29,089	8,425
Interest	-	-
Remaining arrears of Debtors as at 31 December 2003, including:	**164,856**	**47,738**
Co-financing contribution	4	1

	0,009	1,586
SAPARD contribution	120,029	34,757
Default interest	4,818	1,395

In 2003 the Agency entered one debtor, namely, Silu Paukstynas UAB, which has been disbursed the amount of 203,642 LTL (58,972 EUR) illegally, into the Debtors' ledger.

On 12 December 2003 the Agency recovered from the applicant Silu Paukstynas UAB 38,786 LTL (11,234 EUR) in illegally disbursed support. The Agency transferred the amount recovered in instalments:

- 25 percent of the abovementioned amount to the manager of assignations from co-financing funds (the Ministry of Agriculture);
- 75 percent of the abovementioned amount to the SAPARD euro account via the NFD national funds account.

7.2.2 SHORT DESCRIPTION OF PROCEDURES APPLIED BY THE AGENCY

In pursuit of adequate safeguarding of financial interests of the Community, the Agency has drawn and introduced written procedures of control over debtors' arrears. The major procedures in this respect are the following:

- The work description of RDPD set forth a procedure stipulating that where the Director of the Agency signs an order on termination of Support Contract, the AAU of the abovementioned department shall draft a statement on termination of Support Contract according to the form SA 13 and issue a respective notification to FAD, which is responsible for the execution of procedures on recovery of support granted. Another notification shall be related with the termination of financing of the beneficiary of investment project. The debtor shall be entered into the Register of Settlements with Debtors (AA 17) pursuant to the latter notification;
- Report on Debit Amounts (AA 19A, AA 19B) in euros and litas shall be arranged for each quarter and full year from the data accumulated. This report shall be forwarded to NFD, MOA and other regulatory and financial institutions;
- The Debtors' ledger shall be filled in at the end of each quarter (AA 30);
- Summary on Debit Amounts being Annulled shall be arranged (AA 21);
- Register of Debit Amounts being Annulled shall be arranged (AA 23);
- Report on debit amounts annulled shall be arranged for each quarter and full year;

- Head of Support Programmes Accounting and Reports Unit shall coordinate the Debtors' ledger with the orders signed by the Director of the Agency each month, thus ensuring the relevance of records in the Debtors' ledger;
- The Agency shall notify the National Authorizing Officer about all and any violations disclosed, following the provisions of Article 13 of Section A of the MAFA;
- An inspection shall be made at the end of each month concerning the entry of all beneficiaries into the register of debit amounts annulled (Register of Debit Amounts Annulled AA 23) and summaries (AA 21). The data shall be entered into respective accounts of Ledger;
- Reports of approved form shall be filled in at the end of each quarter according to the data accumulated (AA25A, AA25B).

7.2.3 FINDINGS

Our findings related with the work procedures applied by the Agency for the accounting of Debtors are provided below.

Intermediate finding

The work description of NFD fail to prescribe the procedures for the administration of debtors' arrears recovered.

Recommendation

We recommend the NFD to expand the work procedures manual for SAPARD programme with provisions to prescribe the procedures to be applied on the Debtors' arrears recovered.

Comments by NFD

This recommendation of the National Audit Office will be considered by 1 June 2004 via the supplementation of SAPARD Department's work procedures manual with procedures on accounting and administration of amounts of Debtors' arrears recovered.

7.2.4 CONCLUSIONS

The Agency adheres to the requirements of Guideline No. 5 concerning the Debtors' Ledger and has launched the completion of Debtors' ledger. Moreover, the Agency has initiated measures related with the recovery of debtors' arrears.

7.3 SAPARD EURO ACCOUNT

7.3.1 WORK PERFORMED

While conducting the audit, we performed audit procedures related with the following:

- Inspection of bank balance on the SAPARD euro account at the beginning and the end of reporting period;
- Inspection of interest credited to the account;
- Compliance of interest rates applied to the funds accounted on the SAPARD euro account with the rates applied in regular commercial environment;
- Inspection of accounting of profit and loss on currency conversion;
- Analysis of control procedures prescribed and adherence thereto;
- Collation of data on the payments from the SAPARD euro account, the amounts requested and received by the Agency and the amounts paid out to beneficiaries;
- Collation of banking account turnover and accounting records;
- Review of certain operations (accounting records, compliance with legislation, etc.);
- Evaluation of profit **(**loss**),** generated on the positive currency rate effect and the utilization of interest generated on the SAPARD programme euro account; coverage of expenditures on banking transactions.
- Inspection of utilization of SAPARD account funds pursuant to designation thereof.

While conducting the audit, we reviewed the following documents related with the SAPARD euro account:

- Work procedures manual of the National Fund for the SAPARD programme;
- NFD SAPARD balance as at 31 December 2003;
- NFD ledgers related with the administration of SAPARD programme;
- Submission of quarterly Payment Claims from the EU;
- D – 1 Declaration of Expenditure and Payment Claims;
- AR-1 Payment Claim Register;
- LON-1 Letters of Notification on Payment Claims for the SAPARD funds;
- AA 6 S Payment Claims for obtaining the SAPARD funds;
- MPR-1 Register of Request for EU funds;
- LON-2 Letters of Notification on Confirmation Payment Claims for the SAPARD funds;
- TES-2 Checklists for Control of the Requested and Received funds from EC;
- D-2 Annual Declaration of Account for the financial year;
- Records of ledgers related with the administration of SAPARD funds;
- Banking accounting adjustment form;
- Banking account report of the National Paying Agency under the Ministry of Agriculture;
- Payment orders;

- Statements of the Bank of Lithuania, dated 13 January 2003 and 15 January 2004, concerning the bank balance of SAPARD euro account, national funds account and zero balance account as at 1 January 2003 and as at 31 December 2003;
- Statement No. 08-31 of the Bank of Lithuania, dated 19 January 2004, concerning the interest credited in 2003 and the interest rate applied.

The results of independent audit procedures related with the SAPARD euro account are produced in Subsections 3.3 and 3.4 of this Report.

Following the agreement with the Bank of Lithuania and the regulations of the Bank of Lithuania governing the management of banking accounts, the interest rate comprises 90 percent of one-week LIBID (LIBOR – 0.125). The interest rate applied by the Bank of Lithuania on the bank balance of SAPARD euro account exceeds the average interest rate applied by commercial banks.

7.3.2 SHORT DESCRIPTION OF PROCEDURES APPLIED BY NFD

In pursuit of proper safeguarding of financial interests of the Community, NFD has arranged and implemented comprehensive procedures concerning the administration of SAPARD euro account. The following procedures are the most significant in this respect:

- Drawing up of quarterly claims for the disbursement of Community funds;
- Drawing up of supplementary claims for the disbursement of Community funds;
- Drawing up of final claims for the disbursement of Community funds;
- Transfer of Community funds;
- Examination of Agency's applications for the transfer of SAPARD contribution from the EU funds and execution of relevant transfers;
- Accounting of NFD SAPARD euro account.

7.3.3 CONCLUSION

Following the results of our work performed and the reconcilation results set forth in Subsections 3.3 and 3.4 of this Report, we may state that the records of SAPARD euro account are true, complete and accurate.

7.4 NATIONAL CO-FINANCING CONTRIBUTION

7.4.1 WORK PERFORMED

While conducting a review over implementation and fairness of national co-financing contribution, set forth in Article 8 (2) of Section A of the MAFA, we completed the following audit tests during the audit:

- Collation of funds received by the Agency from NFD (SAPARD euro account and public treasury) with the data contained in the Agency's ledgers and the data on Agency's turnover in 2003 as evidenced by the data of SAPARD account No.10000189766 at public company Hansabankas AB**.**
- In order to assess the application of proper ratio of Community and national financing funds (75/25), we conducted a review of Summary of Reports on Evaluation of Payment Claims (AA2).
- In order to make sure that the dates of payment of EU and co-financing funds coincide, as required in the Article 8 of Section A of the MAFA, we conducted a review of individual Agency's ledgers designated for the accounting of EU and co-financing funds.
- Evaluation of fairness of co-financing and EU funds ratio specified in the payment orders addressed to beneficiaries and entered into the files of samples selected for detailed testing.

While conducting the audit, we reviewed the following documents related with the national co-financing contribution:

- AA2 Summaries of Reports on Evaluation of Payment Claim;
- An extract from the Agency's account at the bank Hansabankas AB;
- Agency's ledgers:
    - A detailed trial balance of DC account No. 176101...176108 from 1 January 2003 till 31 December 2003;
    - A detailed trial balance of DC account No. 176201...176208 from 1 January 2003 till 31 December 2003;
- Payment Claims for Co-financing and EU funds (AA6).

7.4.2 SHORT DESCRIPTION OF PROCEDURES APPLIED BY THE AGENCY AND NFD

In order to ensure the utilization of Community's contribution alongside the national general financing, the Agency and NFD have identified the following core procedures:

- NFD examines an application submitted by the Agency for the Community funds (AA 6S) in cases when the examination of application over the section of national financing is finalized (AA6 B) and the transfer of funds is approved;
- The Agency transfers the EU and national financing funds to the beneficiary with a single payment order.

7.4.3 CONCLUSIONS

Considering the works performed, we may confirm that the national co-financing contribution specified in the Article 8 (2) of Section A of the MAFA is implemented properly and disbursed fairly.

8. IMPLEMENTATION OF RECOMMENDATIONS BY THE PREVIOUS AUDIT OF CERTIFYING BODY

Following the provisions of Article 6 (4(e)) of Section A of the MAFA, we have evaluated whether the recommendations concerning the improvement of control systems in effect at the Agency, which were provided during previous audits of the Certifying Body and the National Audit Office, have been taken into consideration.

In pursuit of implementation of recommendations provided by the Certifying Body and the National Audit Office, the Agency has updated and improved the work procedures of departments concerned. However, in some cases the Agency's measures to implement the recommendations were far from effective, which was evidenced by cases, established during the audit procedures, showing that the previous recommendations of external auditors were applicable this year again.

Moreover, we have established cases of untimely implementation of recommendations concerning the improvement of procedures on internal controls in effect at the Agency.

The assessment of implementation of recommendations issued by previous audit of Certifying Body is specified in Table 8.1. The assessment of implementation of recommendations issued by previous audit of National Audit Office is provided in Table 8.2.

Table 8.1

Implementation of recommendations by the previous audit of Certifying Body

No.	Recommendations of previous audit of the Certifying Body	The status of recommendations' implementation Comments by the National Audit Office and the Agency
	Internal Audit Service	
1.	We recommend the Agency's management to consider a possibility to draft a policy on retention of staff, which could enable to reduce the circulation of employees of the Internal Audit Service at the Agency.	We have established that this recommendation is applicable again this year. <u>Agency's comments</u> The Agency will draft a Staff Management Policy, which will establish the prerequisites for the retention of.
2.	We recommend to enter the following information into the annual audit schedules: • a summary of tasks assigned for the year; • an extensive description of the scope of works; • a term to implement each task assigned; • the final terms for the arrangement of internal audit reports; • resources that should be assigned per each internal audit task. Moreover, we recommend to make an adequate generalization of all risks established for IAD and other Agency's officers and link the above risks with specific internal audit tasks and extensive audit programmes.	We have established that this recommendation is still applicable this year. <u>Agency's comments</u> The updated plan for 2004 will cover the resources per each audit task, as well as a description of task scope.

3.	We recommend to perform the internal audit tasks pursuant to the Annual Internal Audit Schedule.	We have established that this recommendation is still applicable this year. Agency's comments Under a respective decision of the Director of the Agency, the Internal Audit Department has been charged with strict adherence to the plan of 2004 approved.
4.	We recommend to document all and any works performed by IAD pursuant to the Internal Audit Manual.	We have established that this recommendation is still applicable this year. Agency's comments The Manual for the Internal Audit Department was approved with the 4 February 2004 Order No. BRI-036 of the Director of the Agency. All audit procedures performed shall be documented following the provisions of the abovementioned Manual.
5.	We recommend the Internal Audit Service to draw an IT audit plan during 2003. Moreover, we recommend the staff of the Internal Audit Unit in charge of implementation of IT security task to acquire qualifications adequate for computerized audit prior to execution of scheduled task on IT security.	We have established that this recommendation is still applicable this year. Agency's comments Following the requirements of 2003 PHARE project 2002/000.601.01.01 the Agency has arranged a technical task and will conduct the audit procedures concerning the improvement of IT security of the National Paying Agency.
6.	We recommend to enter all findings established by the internal audit staff during specific internal audit tasks into the Internal Audit Reports.	We have established that this recommendation is still applicable this year. Agency's comments This recommendation was considered at the meeting of Internal Audit Service staff in February 2003. The requirements was considered repeatedly at the meeting of IAD staff on 10 February 2004.
7.	We recommend to consider a possibility to establish work evaluation procedures, which could be performed by the internal audit service manager at least after the completion of each large-scale internal audit task.	We have established that this recommendation is still applicable this year. Agency's comments This recommendation has been implemented upon approval of Internal Audit Guide.
8.	We recommend the Internal Audit Service and the Agency's management to consider a possibility to replace the audit paperwork with a computerized filing and document management system, a wide range of which is currently offered on the market. We believe that such a system could also make a significant contribution into better management of human resources of the internal audit service.	We have established that this recommendation is still applicable this year. Agency's comments Considering the recommendations of external auditors, in February 2003 the Internal Audit Service filed an appeal concerning the necessity of audit programme. In 2004 IAD produced a validation for the necessity of audit programmes again.
	Rural Development Programmes Department (RDPD)	
9.	The Ministry of Agriculture and the Supervisory Committee should review the criteria established for the evaluation of Applications and determine that the applications submitted by companies within the group should be assess pursuant to consolidated financial data. Consolidated financial accounting is not mandatory under the legislation governing the accounting in the Republic of Lithuania, thus, the applicants within a single group should submit consolidated accounts drawn under the International Accounting Standards.	We have established that this recommendation is still applicable this year. Agency's comments The Law on Principles of Accounting of the Republic of Lithuania stipulates that for-profit legal entities shall manage the accounting pursuant to the Business Accounting Standards. The Business Accounting Standard No. 16 concerning the consolidated accounting and investments into subsidiaries identifies the economic entities and specifies the terms the consolidated accounting reports should be drawn up. Considering the requirements of the abovementioned legal acts, the Agency will have a possibility to and will execute the evaluation of consolidated accounts pursuant to prescribed procedures from 1 January 2004 only.

10.	Documents validating the sales markets for the output of applicants are not sufficient. We recommend the manager of the Project Evaluation Unit to tighten the control over the work performed of evaluators and ensure adequate quality of project evaluation and compliance of project and general eligibility criteria.	We have established that this recommendation is still applicable this year. Agency's comments The work description specifying the documents to validate the markets for the sale of output have been approved under the 28 November 2003 Order No. BR1-263 of the Director of the Agency.
11.	We recommend the Agency to consider a possibility to determine more detailed procedures that would prescribes actions to be taken where the applicants replace the suppliers that have been selected before. We recommend to develop a tighter approach towards the supervision of supplier replacements after the conclusion of Support Contract and validate the replacement with documents, establishing a procedure for the announcement of new tender to select the supplier. Thus, the evaluators would repeat an - inspection whether the new supplier complied with the project eligibility criteria. Moreover, we recommend the Project Evaluation Unit to require the applicant in all cases to provide explanations about the reasons that prompted to choose the supplier that had not bid the lowest price.	Implemented pursuant to the Agency's Measure Plan.
12.	We recommend the PEU to request additional data or documents to applications from the Rural Development Programmes Units. Inquiries over the on-the-spot check should be filed to the Control Unit in cases where the evaluator has a basis to suspect that the data provided in the application, investment project (business plan) or application on-the-spot check report, submitted by the Rural Development Programmes Unit, do not represent true facts.	Implemented pursuant to the Agency's Measure Plan.
13.	While assessing a project, the Project Evaluation Unit should not consider business plans, which have been amended (improved) by applicants and which modify the content of primary application. Moreover, we recommend the Agency to consider a possibility to establish a procedure, which would allow to prevent the acceptance of investment projects that have already been rejected as uneconomical.	Implemented in late 2003. A procedure on Supplementary Evaluation of Projects was approved under the 12 February 2003 Order No. BR1-22 of the Director of the Agency. The procedure for lodging of appeals against the rejection of projects was approved under the 28 November 2003 Order No. BR1-263 of the Director of the Agency.
14.	We recommend the Agency to consider a possibility to eliminate exceptions in the model applied for the evaluation of financial status of applicants.	Implemented in late 2003. Agency's comments The Supervisory Committee rejected this proposal in paragraph 4 of minutes No. 4 dated 6 November 2003. Thus, the Agency evaluates the criterion of eligibility of projects in terms of economic viability thereof following the procedure endorsed by the 6 February 2001 Order No. 24 of the Minister of Agriculture.
15.	Unfounded scope of procurement. Evaluators should develop a more careful approach towards the examination of business plans and other documents related with the application. In the event of any doubts concerning the validity of those documents, the evaluators should request the applicant and the third parties to provide additional information about their abilities to execute the obligations set forth in contracts.	We have established that this recommendation is still applicable this year. Agency's comments Following the 2 March 2004 Order No. BR2-(1.5)-119 of the Director of the Agency, the Support Agreement No. SA8-P24020010 was terminated as the applicant specified unfounded scopes for the supply of raw materials in its project.

16.	Evaluators should develop a more careful approach towards the evaluation of documents related with own sources of financing of the applicant. A bank letter, specifying its intentions to extend a loan, and other own sources of funds should not be used as documents validating the implementation of project and solvency of applicants upon the completion thereof.	Implemented in late 2003. Agency's comments On 12 February 2003 the Director of the Agency issued an order No. BR1-22 to supplement the working documents (SB2a/f) with requirements stating that the process of evaluation of the criterion of project eligibility in terms of economic viability thereof should encompass the validity of funds envisioned for the financing of the project. Moreover, on 28 November 2003 the Director of the Agency issued an Order No. BR1-263 to approve the work description that specified the documents to confirm the validity of project funding.
17.	We recommend the Agency to establish a requirement that would oblige the companies, for which audit is mandatory pursuant to the Law on Public Companies of the Republic of Lithuania, to provide financial statements as approved by auditors.	Implemented pursuant to the Agency's Measure Plan.
18.	We recommend the Agency to cooperate with the Ministry of Agriculture over a review of definition of cooperated projects and prevent giving of priority to projects, in which over 50 percent of shares are controlled by a single shareholder.	Implemented pursuant to the Agency's Measure Plan.
19.	Identical completion of project evaluation check lists and project evaluation reports by two evaluators. We recommend the manager of Project Evaluation Unit to tighten control over the work performed of evaluators and ensure adherence to work procedures prescribed.	Implemented pursuant to the Agency's Measure Plan.
20.	Untimely evaluation of applications and review of project evaluation report. We recommend the Director of SAPARD Department to establish the reasons for delays in evaluation and review of applications, and, should he establish that the term is unfounded, to determine another adequate term. Otherwise, a possibility to hire additional evaluators should be considered.	We have established that this recommendation is applicable again this year. Agency's comments Evaluation of projects and objective determination of compliance thereof with eligibility criteria often reveal a shortage of data, which brings about a necessity to issue inquiries to applicants and request additional information or documents, which leads to a procrastination in the evaluation of projects. Moreover, we would like to point out that at a certain moment the Agency came across an unplanned shortage of human resources because the number of project evaluators was determined under a supposition that the SAPARD assignments would be assimilated within a year each year. However, strong activity of applicants observed during the year and a half has predetermined that the assignations of SAPARD funds scheduled for four years have been disbursed during the abovementioned period. Accordingly, the evaluation of applications was dragged out on back of abovementioned reasons.

21.	We recommend the evaluators to extend the remarks to the project evaluation check lists either with extensive supporting calculations of work results or with documented preconditions reviewed, which were used as a basis for recalculations, in order to provide to the manager of Project Evaluation Unit a possibility to check these recalculations easily while inspecting the project evaluation check lists.	Implemented in late 2003. Agency's comments While assessing the economic viability of projects, the evaluators always recalculate the indices used to define the financial status of a farm. When the applicant's indices are calculated improperly or do not comply with the critical values as established in the 6 February 2001 Order No. 24 of the Ministry of Agriculture, the evaluators enter a respective remark in the working documents. However, considering the remarks of the Certifying Body, on 28 November 2003 the Director of the Agency issued the order No. BR1-263 to supplement the project evaluation check list (SB2a/f).
22.	We recommend the manager of Project Administration Unit to ensure adequate completion of all project implementation schedules, the signing of the schedules by an executive representative of applicant, and timely submission of documents to the Agency.	Implemented pursuant to the Agency's Measure Plan.
23.	We recommend executive officers of SAPARD Department to make all and any required records in the check lists on evaluation and administration of Applications, thus ensuring the implementation of all procedures prescribed.	We have established that this recommendation is applicable again this year. Agency's comments A review of project with the inconsistencies disclosed has revealed that the error was of technical nature. The inconsistency was eliminated.
24.	We recommend the Director of SAPARD Department to review all check lists arranged by the manager of Project Evaluation Unit for the review of Project Evaluation Reports, and the manager of Project Evaluation Unit to review all Project Evaluation reports and sign the above documents thus evidencing the review thereof.	We have established that this recommendation is still applicable this year. Agency's comments A review of project with the inconsistencies disclosed has revealed that the error was of technical nature. The inconsistency was eliminated.
25.	We recommend the manager of Project Evaluation Unit to develop a more careful approach towards the inspection of project evaluation check lists arranged by evaluators, assuring the completeness of information contained therein, and sign and date the abovementioned documents thus evidencing the review thereof.	We have established that this recommendation is still applicable this year. Agency's comments A review of project with the inconsistencies disclosed has revealed that the error was of technical nature. The inconsistency was eliminated.
26.	We recommend the Agency to develop procedures to appoint a person to be in charge of signing of documents required in the event of absence of Unit's manager. Moreover, we recommend the manager of Project Administration Unit to review all Support Contract drafts and check lists for the arrangement of Support Contracts as arranged by executive officers, and sign the abovementioned documents thus evidencing the review thereof.	We have established that this recommendation is still applicable this year.

27.	Applicant's experience and professional qualifications. We recommend the manager of Project Evaluation Unit to develop a more careful approach towards a review of Project Evaluation reports and to ensure compliance with all and any general criteria applied to the eligibility of project.	We have established that this recommendation is still applicable this year. Agency's comments The Work Instructions approved by 28 November 2003 Order No. BR1-263 of the Director of the Agency specify the documents to confirm the validity of project for financing. However, in this particular case we would like to point out that, in our opinion, corporate executives should have the knowledge and abilities to manage economic entities, i.e., be proficient in management, finance, economics and other spheres, which would ensure the continuity of business and the implementation of objective of the Programme. Meanwhile the requirement for executives of legal entities to have a degree in agricultural sciences would not ensure the success of economic entities in business and their competitive abilities on the common market after the allocation of SAPARD support thereto. The Agency addressed the Ministry of Agriculture over the explanation of this requirement of the Programme.
28.	Expenditures not eligible for reimbursement are included into Support Contracts. We recommend the manager of Project Evaluation Unit to prevent the inclusion of expenditures not eligible for reimbursement into the amount of support approved in Project Evaluation Reports and to ensure a more careful approach towards the arrangement of Support Contracts.	Implemented pursuant to the Agency's Measure Plan.
29.	The maximum amount of support assigned pursuant to the Vocational Training Measure. We recommend the manager of Project Evaluation Unit to develop a more careful approach towards a review of Project Evaluation reports and to tighten the control over the work performed of evaluators in order to ensure high quality of project evaluation.	Implemented pursuant to the Agency's Measure Plan.
30.	We recommend the manager of Project Administration Unit to prevent the raising of support amount during the approval of amendments to the Support Contract.	Implemented pursuant to the Agency's Measure Plan.
31.	We recommend the Project Administration Unit to compile a several list of projects that have been finalized (the last Payment Claim has been received), and have not been paid up in full. Moreover, we recommend the Project Administration Unit to ensure a timely notification of Support Programmes Accounting and Reports Unit about the projects finalised in order to ensure timely annulment of credit balance left.	Implemented pursuant to the Agency's Measure Plan.
32.	We recommend executive officers of Project Administration Unit to ensure that a beneficiary obtains an approval of Agency prior to mortgaging of assets with a bank in all cases.	Implemented pursuant to the Agency's Measure Plan.
33.	The analysis of inconsistencies specified in reports on the on-the-spot checks of Applications is not sufficient. We recommend the manager of Project Evaluation Unit to ensure adequate quality of work performed by evaluators and consider all and any inconsistencies revealed during the on-the-spot check properly.	Implemented pursuant to the Agency's Measure Plan.

34.	We recommend the manager of Project Evaluation Unit to conduct a regular review of Application registration book and ensure timely entry of all information therein.	Implemented pursuant to the Agency's Measure Plan.
35.	We recommend the Project Administration Unit to make a precise definition of criteria, which are applied to determine when the projects approved should be entered into reports (after the signing of Support Contract or upon the issue of order of the Director of the Agency concerning the approval of project), and adhere to this criterion consistently.	Implemented pursuant to the Agency's Measure Plan.
36.	We recommend the RDPD employees to sign the amendments to working documents in order to reduce the risks of unauthorized corrections.	Implemented pursuant to the Agency's Measure Plan.
37.	The control over the formation of sets of documents in the Project Supervision Files is not sufficient (which corresponds to the finding of previous year). We recommend the Project Administration Unit to tighten control over the formation of sets of documents in the Project Supervision Files.	Implemented pursuant to the Agency's Measure Plan.
	Finance and Accounting Department	
38.	We recommend the Agency to review all documents related with the payment No. M27020001, and determine whether the payment complies with the requirements of Multi-Annual Financing Agreement. Moreover, we recommend the Payment Claims Unit to ensure a rejection of any Payment Claims related with bills that have been issued prior to the conclusion of Support Contract.	Implemented pursuant to the Agency's Measure Plan.
39.	We recommend the Support Programmes Accounting and Reports Unit to consider a possibility to compile a summary of reports on evaluation of Payment Claims according to the actual date of payments paid.	We have established that this recommendation is still applicable this year.
40.	We recommend the Agency to consider a possibility to make relevant modifications of accounting software and ensure the precise entry and accounting of all Payment Claims in the accounting system.	Implemented pursuant to the Agency's Measure Plan.
41.	We advise the manager of the Payment Unit to review draft check lists on the summary of Payment Claims as arranged by all executive officers and sign those lists thus confirming the review thereof. Moreover, we recommend the executive officers of Payment Unit to make all required records in the check lists on the summary of Payment Claims and ensure the comprehensiveness of procedures performed.	We have established that this recommendation is still applicable this year.
42.	We recommend the manager of the Payment Unit to ensure that the records on the payments paid are made in the accounting system after the disbursement of funds to beneficiaries.	We have established that this recommendation is still applicable this year.
43.	We recommend executive officers of Payment Claims Unit to take a more careful approach towards inspection whether the Rural development Programmes Units provide detailed documents, and, in case of shortage of any data, to return the documents for updating in order to ensure the implementation of all written procedures prescribed.	Implemented pursuant to the Agency's Measure Plan.

44.	We recommend the Payment Claims unit to notify beneficiaries (suppliers) about the need to submit more precise customs declarations with all data required for the identification of equipment. In case of any doubts arising from the identification of assets in the customs declaration, the unit should address the suppliers with a request to provide additional information to evidence the identity of assets.	Implemented pursuant to the Agency's Measure Plan.
45.	We recommend the manager of the Payment Claims Unit to tighten control over evaluation of Payment Claims in order to ensure the performance of evaluation in absolute compliance with the procedures prescribed.	We have established that this recommendation is still applicable this year.
46.	We recommend the Payment Claims Unit to make sure that a Payment Claim that has been rejected once is not accepted and approved later. The beneficiary should submit a new Payment Claim instead.	Implemented pursuant to the Agency's Measure Plan.
47.	We recommend executive officers of Payment Unit and the Director of the Agency to make all and any records in the check lists of payment orders printouts in order to ensure the implementation of all procedures prescribed.	Implemented pursuant to the Agency's Measure Plan.
48.	We recommend executive officers of Payment Claims Unit to make all and any records in the check lists on inspection of documents compiled by an officer of Payment Claims Unit in order to make sure of compliance with all procedures prescribed.	We have established that this recommendation is still applicable this year.
49.	We recommend the staff of Finance and Accounting Department to sign all and any corrections in working documents in order to reduce the risk of unauthorized corrections.	Implemented pursuant to the Agency's Measure Plan.
50.	We recommend the Payment Claims Unit to draw supplementary procedures that would prescribe the actions to be taken concerning the Payment Claims, where the beneficiaries had acquired the equipment from suppliers other than specified in the Support Contract, and the respective amendments to the Support Contract had not been made until the submission of Payment Claim.	We have established that this recommendation is still applicable this year. Agency's comments Will be performed after 1 June 2004.
	Regional Units of Control Department	
51.	We recommend the Agency to conduct a detailed review of human resources and, where necessary, to hire additional employees in the regions that register the largest number of claims.	Implemented pursuant to the Agency's Measure Plan.
52.	We recommend to tackle a possibility of active cooperation with experts from neighbouring district thus aiding the busiest districts in management of significant load of work.	Implemented pursuant to the Agency's Measure Plan.
53.	We recommend to evaluate the adequacy of remuneration of CDRU employees and, where necessary, to carry out relevant adjustments.	Implemented pursuant to the Agency's Measure Plan. Agency's comments In January 2004 the official work performed of CDRU employees – civil servants was assessed and 45 public servants were awarded with qualification degrees. Adjustment of remuneration for employees working employment contracts is carried out via the allocation of allowances.

54.	We recommend the managers of CDRU to tighten the control over the working documents drawn up by units' staff and to ensure the adequate quality of completion of Application check lists. We recommend the officers of Regional Units of the Control Department to make relevant records in a report on Application on-the-spot check, the check lists on the on-the-spot inspection of Applications and in the check lists on the on-the-spot inspection of Payment Claims, thus ensuring the implementation of all procedures prescribed. We recommend the executive officers of Regional Units of the Control Department to carry out all records in control check lists of Payment Claims thus ensuring the implementation of all procedures prescribed.	We have established that this recommendation is still applicable this year. Agency's comments Managers of regional units are called to take part in regular meetings focused on consideration of any inconsistencies and errors made while performing the functions assigned and the measures to prevent any similar inconsistencies or errors. In 2003 the meetings with regional units of Control Department were held on: 1. 4 March 2003 (minutes No. BR 11-(1.8)-06); 2. 15 July 2003 (minutes No. BR 11-(1.8)-14); 3. 5 August 2003 (minutes No. BR 11-(1.8)-15); 4. 27 August 2003 (minutes No. BR 11-(1.8)-16); 5. 1 October 2003 (minutes No. BR 11-(1.8)-20); 6. 4 November 2003 (minutes No. BR 11-(1.8)-23); 7. 5 December 2003 (minutes No. BR 11-(1.8)-27).
55.	We recommend to specify the check lists of Applications and ensure explicit formulation of all questions.	Implemented pursuant to the Agency's Measure Plan.
56.	We recommend the Agency to consider a possibility to establish provisions for Payment Claims submitted after the expiry of the term set forth in the Support Contract.	Implemented pursuant to the Agency's Measure Plan. Agency's comments The procedures of CDRU stipulate that the beneficiary shall submit the Payment Claim alongside a reasoned explanation where the Payment Claim is submitted after the date set forth in the Contract. FAD has prescribed the abovementioned procedure. 'With the Payment Claim submitted within 30 business days after the expiry of the term, the beneficiary shall provide an explanation to validate the delay in the submission of Payment Claim'.
57.	We recommend to consider a possibility to credit the arrears on the first other payment, even if this payment is related with other measures funded from the Community and/or national budget.	We have established that this recommendation is applicable again this year.
58.	We recommend the Agency and NFD to obtain a list of Commission's holidays prior to the beginning of financial year and enter this list, which shall be treated as an working document, into the Manuals of the Agency and NFD.	Implemented pursuant to the Agency's Measure Plan.
59.	We recommend to the Agency to make respective arrangements in future and to ensure timely implementation of recommendations provided by auditors.	We have established that this recommendation is still applicable this year.
60.	We recommend to introduce an additional control procedure to be applied by the Payment Claims Unit for the confirmation of validity of Payment Claims and to prevent the transfer of additional funds to the beneficiary with the arrears of the latter still outstanding.	Implemented pursuant to the Agency's Measure Plan.
	Control Department	
61.	We recommend the Agency to obtain a written confirmation of expert's independence and documents evidencing his or her competence explicitly.	Not available. The Agency did not make any use of assistance of independent experts during the period covered by audit procedures.
	Information Technology Unit	
62.	We recommend the Agency to consider a possibility to arrange a detailed Business Continuity Plan.	Updated on regular basis.

Table 8.2

Implementation of recommendations by the previous audit of National Audit Office

	RECOMMENDATIONS BY PREVIOUS AUDIT OF NATIONAL AUDIT OFFICE	STATUS OF RECOMMENDATIONS' IMPLEMENTATION COMMENTS BY THE NATIONAL AUDIT OFFICE AND THE AGENCY
	Evaluation of Applications for Support	
1.	The Agency's management shall tighten the work procedures of RDPD and ensure the making of all records required in the check lists on evaluation and administration of Applications.	Implemented pursuant to the Agency's Measure Plan.
2.	The Agency's management shall tighten the work procedures of RDPD and ensure proper supervision thereof.	Implemented pursuant to the Agency's Measure Plan.
3.	The Agency's management shall expand the work description of RDPD with provisions specifying the actions to be taken by evaluator in cases when the applicant has performed some actions prior to the conclusion of Contract.	Implemented pursuant to the Agency's Measure Plan.
4.	In order to prevent the duplication of SAPARD support with the funding of projects from other sources, the Agency's management should establish procedures for the receipt of supplementary information from relevant institutions (e.g., Central Project Management Agency, the Ministry of the Interior and the Ministry of Agriculture) for the evaluation of eligibility of projects.	Implemented pursuant to the Agency's Measure Plan.
5.	The Agency's management shall supplement the list of eligible expenditures with the expenditures on consultants working on the arrangement of business plan.	Implemented pursuant to the Agency's Measure Plan.
6.	A list of expenditures eligible for reimbursement and specified in priority measures 1, 2 and 3 should be expanded in the Agency's bulletins via the specification of expenditures on consultants working on the arrangement of business plan.	Implemented pursuant to the Agency's Measure Plan.
7.	The Agency's management shall expand the list of expenditures eligible for financing via an explicit definition of criteria of evaluation of equipment and mechanisms, the acquisition of which is entitled to SAPARD support. E.g., the value of equipment and mechanisms eligible for financing could be specified per unit additionally.	Implemented pursuant to the Agency's Measure Plan.
8.	The Agency's management shall supplement the work description of RDPD with a provision establishing the procedures to be implemented in cases where the PEU states a negative opinion over the funding of project, while the PSC confirms the project's eligibility for financing, or where the PSC states that the project is ineligible for financing, while the Director of the Agency issues a decision to confirm the eligibility of the project for support.	Implemented pursuant to the Agency's Measure Plan.
	Consideration of projects at the Project Selection Commission	
9.	The Agency's management shall supplement the Part 3.6 Legalisation and Implementation of Decisions of work description of PSC with a provision that should prescribe a minute documentation of procedures on evaluation of projects considered.	Implemented pursuant to the Agency's Measure Plan.
10.	The Agency's management shall supplement the work description of PEU with provisions that should prescribe the following: • the responsibility of unit manager or authorized expert concerning the provision of detailed information about the project under evaluation; • the arrangement of standard form, which should be submitted to PSC and which should specify mandatory information about the project considered.	Implemented pursuant to the Agency's Measure Plan.
	Arrangement and Signing of Support Contracts	
11.	The Agency shall supplement and tighten the work procedures for RDPD with a provision setting forth the responsibility of Agency's deputy Director and SAPARD department Director for the compliance of contracts with the provisions of MAFA.	We have established that this recommendation is still applicable this year.
12.	The Agency's management shall expand the work description of RDPD with a provision specifying a reasonable term for the arrangement of one Support Contract and prescribing the regulations for the amendment and supplementation of Support Contracts.	We have established that this recommendation is still applicable this year.

13.	The Agency's management shall expand the work description of RDPD with a provision stipulating for the amendment of contract articles related with the reimbursement of expenditures.	Implemented pursuant to the Agency's Measure Plan.
14.	The Agency shall draft the format of typical Support Contract, considering the particulars of priority measures and make adequate decisions concerning the supplementations to the criteria applied to the eligibility of projects.	Implemented pursuant to the Agency's Measure Plan.
15.	The Agency's management shall expand the work description of RDPD with a provision, which should be entered into the Article 2 of Support Contract and should state that both qualitative and quantitative indices (technical parameters, etc.) of investments eligible for reimbursement should be specified.	Implemented pursuant to the Agency's Measure Plan.
	Evaluation and confirmation of payment claims	
16.	To expand the work description of RDPD with a provision specifying that the unit manager shall ensure a response to each item in the check list. The Agency shall set forth a responsibility of RDPD manager for timely and high-quality review and control over working documents arranged by officers, and the compliance of documents forwarded to the Agency with the requirements prescribed.	Implemented pursuant to the Agency's Measure Plan.
17.	The Agency's management shall expand the work description of the Payment Claims Unit with a provision specifying the responsibility of the unit manager for timely and high-quality control and review of working documents arranged by officers.	We have established that this recommendation is applicable again this year.
18.	The Agency's management shall ensure the adherence to the procedures prescribed for the evaluation of payment claims and supervision thereof.	We have established that this recommendation is still applicable this year.
19.	The Director of the Agency shall ensure the adherence to the procedures prescribed for the evaluation of payment claims and initiate additional on-the-spot checks or other actions not specified in the procedures upon explicit motivation of those measures only.	Implemented pursuant to the Agency's Measure Plan.
	Execution of payments	
20.	The Agency shall make an additional assessment of project financing and make a decision concerning the amount of 2,017,700 LTL (1,513,280 LTL in SAPARD funds and 504,420 LTL in co-financing resources), which was disbursed in violation of provisions of Article 8 (1(b)) of Section A of the Multi-Annual Financing Agreement, and the recovery of the abovementioned amount pursuant to the procedures and terms set forth in the agreement mentioned above.	Implemented pursuant to the Agency's Measure Plan.
	Payment accounting	
21.	The Agency shall ensure the adherence to the procedures prescribed for control over the accounting of payments. The Agency shall implement relevant modifications of the Navision Financial accounting programme, which would ensure the entry of data on payments paid into the ledgers upon the receipt of banking confirmation.	Implemented pursuant to the Agency's Measure Plan.

Director of Financial Audit Department 7 Tomas Mackevičius

Principal Auditor of Financial Audit Department 7 Maina Vaičiūnienė

Familiarized by:

Director of National Payment Agency
under the Ministry of Agriculture Valentinas Miltienis

Director of Finance and Accounting Department Virginija Bytautaitė

APPENDICES

APPENDIX 1 LIST OF ABBREVIATIONS

Abbreviation	Meaning
AAU	Administration and Analysis Unit of Department of Rural Development Programs
Agency	National Paying Agency under the Ministry of Agriculture
Application	Application for SAPARD support
CD	Control Department
CDRU	Control Department Regional Unit
Table D-1	Declaration of expenditure and payment claim
EC	European Commission
FAD	Finance and Accounting Department
FCIS	Financial Crime Investigation Service
Fishery Department	Fishery Department under the Ministry of Agriculture
Table D-2	Annual Declaration of Account
IAD	Internal Audit Department
IS	Information systems
IT	Information technologies
IT Department	Information Technology Department
LARDP	Lithuanian Agriculture and Rural Development Programme for 2000-2006
LIBID	London Interbank bid rate
LIBOR	London Interbank offered rate
MAFA	Multi-Annual Financing Agreement
MOA	Ministry of Agriculture
MOI	Ministry of the Interior
NFD	National Fund Department of Ministry of Finance
OLAF	European Anti-Fraud Office
Payment Claim	A Payment Claim for the SAPARD support
PCU	Payment Claim Unit of Finance and Accounting Department
PEU	Project Evaluation Unit of Rural Development Programmes Department
PSC	Project Selection Commission
PU	Payment Unit of Finance and Accounting Department
RDPD	Rural Development Programmes Department
SAPARD	Special Accession Programme for Agriculture and Rural Development
SPARU	Support Programmes Accounting and Reports Units of Finance and Accounting Department

APPENDIX 2 SAPARD BALANCE SHEET OF NATIONAL FUND DEPARTMENT

NATIONAL FUND – SAPARD

BALANCE SHEET

31 December 2003

Acc. No.	Account	LTL	EUR
	ASSETS	**LTL**	**EUR**
101	EUR account No. 6532419 at the Bank of Lithuania	9,518,663	2,756,796
102	LTL account No. 2235419 at the Bank of Lithuania, national funds	6,572	0
103	LTL account No. 2135412 at the Bank of Lithuania, zero balance	0	0
557	Recovered funds obtained from the Agency, acknowledged as arrears to EC	0	0
901	Funds receivable from the European Commission	26,426,869	7,653,750
	Total	**35,952,104**	**10,410,546**
	LIABILITIES		
220	European Commission payments	8,736,298	2,530,207
228	Adjustment of recovered funds to the difference in euro rate as set forth by ECB and the Bank of Lithuania	2	1
507	Recovered funds received from the Agency	29,089	8,425
701	Interest on bank balance	753,274	218,163
902	Payment claims submitted to the European Commission	26,426,869	7,653,750
904	Arrears to the European Commission	0	0
907	Own funds of the Agency	6,572	0
908	Arrears to the national budget (public treasury / Debt Management Department)	0	0
	Total	**35,952,104**	**10,410,546**

APPENDIX 3 STRUCTURE OF NATIONAL PAYING AGENCY UNDER THE MINISTRY OF AGRICULTURE