



Executive summary of the public audit report

IMPLEMENTATION OF THE PROGRAMME OF FUNDING OF GENERAL FORESTRY NEEDS

27 September 2016, No. VA-P-20-7-13



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

DEFINITIONS AND ABBREVIATIONS

AM: Ministry of Environment of the Republic of Lithuania

DGSF: Directorate General of State Forests under the Ministry of Environment of the Republic of Lithuania

LHS: Lithuanian Hydrometeorological Service under the Ministry of Environment

FS: forest stewardship

Programme: Programme of Funding of General Forestry Needs

SFS: State Forest Service

SSPA: State Service for Protected Areas under the Ministry of Environment

Complex forestry activities: activities covering forest rehabilitation, maintenance, protection, rational use of forest resources and trade in timber as well as forest resources¹.

Forest holders: forest owners; forest stewardships, directorates of state reserves, directorates of national parks, municipalities, public enterprises and organisations managing state forest land entrusted to them for the purposes of performance of national functions in accordance with the procedure prescribed by the laws under the Government resolutions; other natural persons or legal entities; organisations established abroad that have not been granted the status of a legal entity, but have legal capacity under the applicable laws of the relevant country, having the right to manage private forest land².

¹ Article 2, paragraphs 5 and 16 of the Law on Forests of the Republic of Lithuania, 22/11/1994 No. I-671 (amended by Law No. IX-240 of 10-04-2001, Law No. XII-1839 of 23-06-2015) .

² Ibid.

SUMMARY

Forests are among key renewable natural resources providing benefit to the state, the public, the country's economy and individuals; therefore, irrespective of the form of ownership, forest resources have to be used sparingly, restored and expanded, ensuring its preservation for future generations. Lithuania has been shaping long-term forestry policy. For the purpose of its implementation, the Government has approved the National Forestry Sector Development Programme for 2012–2020, one of the funding sources of which is the Programme of Funding of General Forestry Needs.

The programme is based on the collection of taxes. As of 01-01-2015, all (both state and private) forest holders are required to make deductions of 5 percent from the income received from the sale of wood in the rough and uncut forest as well as compensations paid by individuals for modification of the use of the wooded land, payable to the state budget. The funds are used to finance the general forestry needs as part of implementation of the programme.

The aim of the programme is to ensure expansion of forests and forest resources as well as providing for sustainable forestry development, which creates conditions for forest preservation, while meeting balanced needs of the society.

Strategic environmental study revealed that the use of funds allocated under the programme has not been planned properly, priorities for the selection of the programme measures have not been set, not all funds are distributed and major part of the programme funds remains unused. Therefore, to assess the preparation, administration and implementation of the programme as well as to determine whether its goals have been achieved, whether programme funds allocated to the implementation of the selected measures in 2015 were properly and efficiently used, we addressed the following issues:

- has the planning of the actual programme revenues been ensured;
- has efficient programme management and administration been ensured;
- are the assessment criteria for the programme goals and objectives appropriate;
- is the use of the programme funds on the implementation of the selected measures lawful and efficient.

The subjects of this audit are the Ministry of Environment of the Republic of Lithuania, which administers the programme and implements the measures, and the establishments subordinate thereto: Directorate General of State Forests under the Ministry of Environment of the Republic of Lithuania and State Forest Service, which implement the programme measures. The audit covered the year 2015. Data from the previous periods (2013–2014) were used for the analysis of changes.

In 2015, 19,229.1 thousand euros (including the remaining amount of 10,540.5 thousand euros for 2014 that was at the beginning of the year) in the state budget funds were allocated for the implementation of the programme, of which 8,677.9 thousand euros (or 45 percent) were used by the implementers of the programme measures.

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

CONCLUSIONS

The development, administration and implementation of the programme for the general forestry needs are not without shortcomings; there are doubts as to further implementation of the programme in the future:

1. Major part of the programme funds (up to 50 percent) was allocated and spent on the management costs of subordinate institutions (DGSF and SFS) of the ministry; however, taxes paid by the state and private forest holders should be used to improve the state of forests. Management costs of budgetary institutions should not be seen as a priority, when the purpose of the tax-based programme is to finance general forestry needs (Subsection 2.1, pages 11–12).
2. No priorities, based on which measures that are most relevant for the forestry needs should be selected, as well as no procedure and order of priority for the allocation of funds used to implement such measures have been set up. Therefore, there is a risk that the funds may be allocated to finance general forestry needs that are not among the most important ones (Subsection 2.1, pages 11–12).
3. Major part of funds (about 50 percent) remain unused every year, because:
 - 3.1 The amount of programme revenues actually included in the budget exceed the planned amount by about 2.3 million euros. The budgetary over-performance has not been distributed for the implementation of the programme measures for the current year. Ministry procedures for the forecasting of the programme revenue have not been defined and approved; there are no procedures for the presentation of data used to forecast the revenue and no internal control procedures (Section 1, pages 9–11; Subsection 2.3, pages 13–14);
 - 3.2 Reserve of about 3 million euros, which has not been provided for in the law, is being formed (Subsection 2.3, pages 13–14);
 - 3.3 The institutions have failed to prepare to implement a new measure (maintenance and repair of forest roads) in a timely manner. Therefore, 4 million euros remained unused (Subsection 2.3, pages 13–14);
 - 3.4 About 3 million euros to be spent on the costs of the next year have been added to a reserve and the funds saved have not been distributed (Subsection 2.3, pages 13–14).

Therefore, the system created by the ministry for the funding of programme measures sometimes fails to ensure that the funds are used for important programme measures.
4. In some cases (eg. organising and maintaining the national fire protection system, maintaining and protecting urban forests), it is not clear as to what should be treated as eligible costs of implementation of the measures. Abstract regulation provided for in the description of the procedure for the use of funds cannot be seen as appropriate, since it gives rise to practical uncertainties and disputes over the possibility to use the funds, which could be avoided if clear selection criteria for the selection of measures were set up (Subsection 2.2, pages 12–13).
5. Two (out of four) assessment criteria for the programme result and the product have been set up without complying with the requirements of the Strategic Planning Methodology. Therefore, they fail to reflect the benefit received by direct beneficiaries of the programme,

using appropriations to achieve the programme goals and objectives over a certain period of time. Therefore, their implementation cannot be assessed (Section 3, pages 15–16).

6. Funding agreements signed with public enterprises (forest stewardships) receiving programme funds for the performance of national functions fail to provide any assessment criteria and accountability for the fulfilment of the criteria, the planned detailed distribution of funds depending on the economic purpose (classification) of costs. Thus, it is impossible to assess the results of completion of such agreements (Subsection 4.1, pages 16–17).
7. Funds are being allocated to forest stewardships for reforestation purposes, which are not among the functions of these enterprises. To ensure legal certainty and make sure that reforestation is treated as a national function, the ministry has initiated procedures for the amendment of laws (Subsection 4.2, pages 17–18).

RECOMMENDATIONS

Changes Made during the Audit Period

To promote positive and effective impact of the public audit as well as draw the attention of the ministry to the fields that require improvement, we presented written recommendations, which could help ensure more efficient planning of the programme revenues, lawful distribution thereof for the implementation of the programme measures, objective selection of applicants for the implementation of the measures based on the same principles, while the established assessment criteria would enable assessing the benefits of the programme.

It should be noted that the ministry has made some progress, i.e. it took into account all of the presented recommendations and:

- amended the procedure of administration of the Programme of Funding of General Forestry Needs: added provisions regarding the planning of the programme revenues; defined eligible costs of the implementation of the general forestry needs; provided for a requirement that agreements on the use of the budget funds for the implementation of measures include: activity assessment criteria, detailed distribution of the budget funds depending on the economic purpose (classification) of costs, and that such agreements are signed by the Minister of Environment or a person authorised by them;
- when preparing action plan for 2017–2019, the ministry provided for new assessment criteria showing the level of achievement of the programme goals and objectives;
- drafted bill amending the Law on Forests proposing that the national function, i.e. reforestation using compensations for modification of the use of the wooded land, be assigned to forest stewardships.

These changes will have positive effects on the elimination of shortcomings specified in Conclusions 3.1, 4, 5, 6 and 7.

Below you will find our recommendation, which, if properly implemented, would improve the effectiveness of the administration system of the programme funds, making sure that greater amounts are spent on forestry development and implementation of the key measures.

To the Ministry of Environment of the Republic of Lithuania:

To define priorities for the selection of the most important measures related to forestry needs. This will allow improving the state of forests and meeting the needs of different groups of society as well as using the programme funds in a more efficient manner (Conclusions 1, 2 and 3).

Measures and time frame for the implementation of the recommendation are presented in Annex 2, 'Plan for Implementing Recommendations'.