VALSTYBĖS KONTROLĖ
PUBLIC AUDIT

ACHIEVEMENT OF MILESTONES AND TARGETS OF THE LITHUANIA'S RECOVERY AND RESILIENCE PLAN

1 December 2022

No VAE-12

SUMMARY

Relevance of the audit

EUR 2,224 million in EU support are earmarked for Lithuania to implement the measures of the National Recovery and Resilience Plan New Generation Lithuania. By 31 August 2026, Lithuania committed to achieving 191 milestones and targets in order to receive financial assistance in line with the indicative timeline. The first financial contribution of EUR 565 million was planned to be received after the submission of a payment request in 2022[1] for the achieved 33 milestones, most of which are related to changes in legal regulations. The payment request was submitted to the European Commission on 30 November 2022.

The implementation of the measures envisaged in the plan should contribute to significant changes in the country in terms of education, health, green transition, digitalisation, innovation and science, public sector transition and social protection. It is important to identify and disclose at the earliest possible stage of the implementation of this plan the potential risks associated with the achievement of the objectives and commitments envisaged so that the responsible authorities can take appropriate action in a timely manner in order to implement the planned changes and not to lose the planned funding.

Aware of the importance of proper implementation of the commitments made, we carried out a compliance audit of the achievement of the milestones and targets of the Recovery and Resilience Plan.

[1] The Operational Arrangement provides for an indicative deadline for the first payment request - Q3 2022.

Objective and scope of the audit

The objective of the audit is to assess whether the milestones and targets[2] set out in the EU Council Implementing Decision have been properly achieved and how responsible ministries are prepared to manage the risks associated with their achievement.

Key audit questions:

- Whether the milestones to be achieved before the first payment request have been achieved timely and properly;
- Whether the interim steps set out in the Operational Arrangement with the European Commission and milestones which affect the achievement of other milestones and targets have been achieved timely;
- Whether sufficient and appropriate controls have been put in place in the ministries to enable the timely and proper achievement of the milestones and targets under the EU Council Implementing Decision.

The audited entities are the Ministries of Economy and Innovation, Finance, Transport and Communications, Education, Science and Sport, which are responsible for 123 (or 64%) milestones and targets of the Recovery and Resilience Plan and for 26 (or 79%) milestones of the first payment request.

Audited period:

- Measuring the achievement of the milestones - the actions carried out between 1 April 2021 and 30 September 2022 to achieve the milestones to receive the first financial instalment.
- Assessing internal controls – until 30 June 2022, controls put in place and/or applied to monitor the achievement of the milestones and targets.

Data from earlier and later periods were also used to assess changes that have a significant impact on the achievement of milestones and internal control.

The audit was carried out in accordance with international standards for supreme audit institutions. The audited milestones for the first payment request, interim steps for the achievement of which the audited ministries are responsible and the milestones and targets to assess the assurance of their achievement control as well as the methods used are described in more detail in Annex 2 “Scope and methods of the audit” (p. **Klaida! Žymelė neapibrėžta.**).

[2] Decision No 10477/21 of the Council of the EU of 20 July 2021 approving the assessment of the Recovery and Resilience Plan of Lithuania.

Key audit results

Additional actions are needed to ensure the effective achievement of the milestones and targets set out in the EU Council Implementing Decision[3] and to manage the related risks in ministries.

1. Six out of 26 audited milestones for the first payment request require additional actions to be achieved in line with the EU Council Decision

The achievement of the six audited milestones does not correspond to all the commitments set out in the EU Council Decision.

- The Sustainable Mobility Fund has not yet entered into operation and the legislation or drafts relating to its activities do not specify the outcome and the date by which it is to be achieved.
- The Task Force[4] set up for the implementation of the Competence Centre for Open Data and Digital Transformation initiatives was not tasked with analysing the functionality of existing solutions. The continuity in the work of the Task Force has not been ensured, as the legislation[5] stipulates that the Task Force is only involved in the evaluation and selection of new digital solutions that are planned to be funded by the Recovery and Resilience Facility. It has not been established that the Task Force assesses the selected digital projects in terms of architectural compliance.
- The description of the procedure for the provision of career guidance[6], which determines the provision of these guidance services and their funding for schoolchildren, does not regulate the procedure for the provision of career guidance services and funding for adults.
- The process of consolidation of innovation promotion functions in the public sector is not formally complete, as the sale of the shareholder rights of the state-owned Public Enterprise Lithuanian Innovation Centre has been challenged in court.
- A draft amendment to the Law on Immovable Property Tax has not been submitted to the Seimas.
- No amendments to legal acts were adopted to enable municipalities to participate in the programmes for the promotion of public-private partnership organised by the State.

Failure to fully implement the commitments may result in the suspension of all or part of the first financial instalment payment to the country. Moreover, failure to meet all agreed commitments in the initial phase of the reforms, most of which are related to the adoption

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[3] Decision No 10477/21 of the Council of the EU of 20 July 2021 approving the assessment of the Recovery and Resilience Plan of Lithuania.

[4] Order No V-115 of the Chancellor of the Government of 13 August 2021.

[5] Order No 4-984 of the Minister for the Economy and Innovation of 12 September 2022 approving the methodology for assessing the planned digital solutions allowing safe and convenient access to services.

[6] Government Resolution No 847 of 24 August 2022 approving the procedure for provision of vocational guidance.

of legislation, may result in a failure to achieve the objectives of the reforms, which are focused on promoting sustainable mobility, digitalisation of the public sector, fostering innovation, promoting lifelong career planning, the development of taxes that do not stop economic growth, and the promotion of public-private partnerships (Section 1, p. **Klaida! Žymelė neapibrėžta.**).

2. The achievement of the 20 audited milestones for the first payment request is in line with the decision of the EU Council, but 3 of them may not produce the expected effect

The three milestones have been achieved as agreed but may not deliver the desired result in implementing reforms.

- A registration system for public charging points for electric vehicles has been developed, but it is not yet sufficiently informative, as it only registered about 52% of public electric vehicle charging stations, only 9% of which publish dynamic data.
- Legislation on the non-taxable amount of income was adopted, a draft amendment to the Law on Excise Duty on fossil fuel concessions was submitted to the Seimas, and a draft amendment to the Law on Immovable Property Tax was submitted to the Government. No decisions were taken on the remaining 18 tax exemptions and special tax regimes examined by the Task Force and there are no arguments from the Task Force to justify their effectiveness and compliance with the State priorities.
- The Government Resolution amended the Rules for the establishment of a network of schools carrying out formal education programmes[7] in line with the requirements set out in the Recovery and Resilience Plan. This legal act was accepted by the Constitutional Court at the request of a group of members of the Seimas for consideration as to whether the formal criteria for the reorganisation or liquidation of municipal schools established by this act are compatible with the Constitution[8].

Without the expected impact, there is a risk of not receiving the maximum benefits from implementing country-relevant reforms related to reducing greenhouse gas emissions, facilitating the use of clean vehicles by businesses and residents, and balancing the tax system by eliminating tax exemptions and special tax conditions that are not efficient and not in line with the State priorities (Section 2, p. **Klaida! Žymelė neapibrėžta.**).

3. Failure to complete interim steps or to achieve the milestones for the first payment request on time puts other milestones and targets at risk of not being achieved on time

Eighteen out of the 26 audited milestones were not achieved according to the indicative timeline set out in the EU Council Decision. Four of them can affect the timely achievement of other milestones. Delays in achieving the milestones according to the indicative timeline set out in the Plan pose a risk that the latest milestones and targets, which are

[7] Government Resolution No 1110 of 22 December 2021 amending Government Resolution No 768 of 29 June 2011 approving the rules for the creation of a network of schools carrying out formal education programmes.

[8] Order No 2B-21 of the President of the Constitutional Court of 25 May 2022 on the acceptance of the application.

mostly related to investments, will not be reached on time and the State will have to look for other sources of funding to complete the investments launched (Section 3.1, p. **Klaida! Žymelė neapibrėžta.**).

One of the reasons for the delay in achieving the milestones is the delayed implementation of the new strategic management framework - the preparation and approval of the national development programmes and the descriptions of the progress measures implementing them, as well as descriptions of the terms of financing for projects. In the absence of these documents, the achievement of investment-related targets is delayed. In order to reduce the delay of the target, the Ministry of Economy and Innovation plans to use EUR 627.6 thousand for the development of the data exchange tool and for its publication in a publicly accessible catalogue for at least 5 years, using a competitive selection of a project instead of a public procurement procedure. The criteria for applying the project selection method for funding are not regulated by law. This creates the conditions for contracting authorities to avoid public procurement in the future. (Section 3.1, p. **Klaida! Žymelė neapibrėžta.**).

Four of the 9 interim steps of the milestones and targets audited were achieved later than the indicative deadline set out in the Operational Arrangement with the European Commission[9]. Three of them can influence the timely achievement of the related milestones. Interim steps have been set to strengthen the control of the achievement of certain milestones and targets. Therefore, failure to take the interim steps in time may delay the achievement of the milestones and targets and the implementation of the Plan as a whole. Thus, there is a risk that not all funds for Lithuania's economic recovery and resilience will be received (Section 3.2, p. **Klaida! Žymelė neapibrėžta.**).

4. Controls developed by ministries require improvement

Internal controls are regulated in ministries only when milestones and targets are achieved through project management. In the framework of strategic management, the milestones and targets of the Recovery and Resilience Plan are output milestones measuring the implementation of progress activities. Progress activities are temporary projects with a clear beginning and end and limited resources and are dedicated to the development of new products, but not all activities must be subject to project management. In the ministries audited, 31% of the milestones and targets are achieved by this approach. In cases where milestones and targets are achieved without project management, internal controls are not regulated or documented in ministries. Without documenting the assessment of risk factors and monitoring the implementation of progress activities, ministries run the risk that their management may not have all the information they need to make timely and appropriate decisions in order to achieve the ministries' operational objectives.

Taking into account the requirements stemming from the RRF regulation[10], the country is developing a management and control system for the achievement of the milestones and

[9] The European Commission's Implementing Decision of 5 May 2022 approved the operational arrangements between the European Commission and Lithuania under Regulation (EU) 2021/241, Annex 2.

[10] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, Article 22(1)

targets, the controls introduced by the legislation[11] are applied by the Central Project Management Agency (Administering Authority) and the Ministry of Finance (Managing Authority), thereby mitigating the risks associated with the achievement of the milestones and targets.

In accordance with the above-mentioned regulation, the ministries have prepared and submitted to the Central Project Management Agency action plans for the achievement of milestones and targets, providing the Agency with relevant information every month on the progress of the achievement, based on which the administering and managing authorities carry out a risk assessment and management, although, according to the Law on Internal Control and Internal Audit, managers of public legal entities are responsible for the creation, implementation and improvement of internal control (Section 4, p. **Klaida! Žymelė neapibrėžta.**).

Recommendations

To the Ministry of Economy and Innovation

1. In order to mitigate the risk of not achieving the reform objectives of the Recovery and Resilience Plan—full digitalisation and systems integration of the public sector—and to ensure the long-term impact and continuity of the achievement of milestone 70 "Entry into operation of a competence centre for open data and digital transformation" and full compliance with the commitments set out in the Council's decision, the legislation should establish the functions and operating procedures for the Competence Centre for Open Data and Digital Transformation, by providing for:
   - An assessment of the functionality of existing digital solutions,
   - An assessment of the appropriateness of any new digital solutions that are developed, and, once this process is complete, an assessment of their compliance with defined architectures, standards and technical requirements,
   - An obligation for public sector entities to contact the Centre to assess newly developed digital solutions (Key Audit Result 1).

To the Ministry of Transport and Communications

2. In order to achieve the objective of the reform of the Recovery and Resilience Plan of significantly reducing GHG emissions by consistently phasing out the most polluting road transport vehicles and increasing the share of renewables in the transport sector, and that milestone 29 "Sustainable Mobility Fund that shall finance the development of alternative fuels and vehicle infrastructure is established and operational" is in line with the commitment set out in the EU Council Decision, to put in operation the Sustainable Mobility Fund and determine what result and by when it is due to achieve (Key Audit Result 1).

[11] Government Resolution No 1322 of 25 November 2020 On Preparation and Administration of European Union Funds, approved by Order No 1K-237 of the Minister of Finance of 22 June 2022, Rules for Administration of the Investment Programme of the European Union Funds for 2021-2027 and of the Recovery and Resilience Plan "New Generation Lithuania" approved by Order No 1K-237 of the Minister of Finance of 22 June 2022, p. 68-70.

To the Ministry of Education, Science and Sport

3. In order to achieve the reform objective of the Recovery and Resilience Plan: develop an effective career planning system based on lifelong learning culture and that milestone 110 “Entry into force of the Government Resolution on the description of the procedure regulating the vocational (career) guidance system” would be in line with the commitment set out in the EU Council Decision to regulate the procedure for the provision and financing of career guidance services for adults (Key Audit Result 1).

To the Ministries of Economy and Innovation, Finance, Transport and Communications, Education, Science and Sport

4. To manage the risks associated with the achievement of all the milestones and targets of the Recovery and Resilience Plan in ministries, to regulate internal controls where milestones and targets are achieved without the use of project management (Key Audit Result 4).

The measures and deadlines for the implementation of the recommendations, the expected impact of the audit and the milestones for measuring change are set out in the section of the report entitled Plan for implementing the recommendations (p. **Klaida! Žymelė neapibrėžta.**). Up-to-date information on the status of implementation of the recommendations, results and developments is published in Lithuanian in the Open Data section of the website of the National Audit Office at https://www.valstybeskontrole.lt/LT/AtviriDuomenys.