

FINANCIAL MANAGEMENT OF THE NATIONAL DEFENCE SYSTEM

16 June 2026

No. VAE-4

SUMMARY

Relevance of the audit

Funding for the national defence system is increasing year on year – in 2025, appropriations rose by 73 percent compared with 2023. State budget appropriations to the Ministry of National Defence (including EU support, funds under the European Peace Facility and from the State Defence Fund) amounted to EUR 3,397.8 million in 2025, i.e. 14.7 percent of the total state budget (EUR 23.1 billion), or 4.04 percent of GDP.

With defence funding rising rapidly, it is particularly important to ensure transparent planning and management of resources. Proper budget planning, the allocation and reallocation of appropriations, as well as consistent monitoring of budget implementation, are key factors in achieving the priorities set out in the programme for the strengthening and development of the national defence system – by 2027 to establish host nation support infrastructure for the reception of a German brigade, to form a national division that would achieve full operational capability by the end of 2030, and to implement the principle of total defence.

Audit objective and scope

The objective of the audit is to assess whether the conditions are in place for the sound financial management of the national defence system.

Key audit questions:

- ✓ whether the strategic management and monitoring of the national defence system are carried out appropriately to ensure the conditions for effective and efficient financial management;
- ✓ whether financial planning and expenditure ensure the development of the national defence system's capabilities.

The audited entity is the Ministry of National Defence, which formulates state policy and organises, coordinates and supervises its implementation in the areas of governance assigned to the Minister of National Defence¹.

During the audit, we gathered information from the General Jonas Žemaitis Lithuanian Military Academy, the Defence Resources Agency, the Infrastructure Management Agency, the Ministry of National Defence, the General Inspectorate, the Defence Staff of the Lithuanian Armed Forces, and other structural units of the armed forces. We met with the leadership of the Lithuanian Armed Forces' Land Forces, Air Force, Naval Forces and Logistics Directorate. We interviewed all ² 10 programme coordinators working on programmes implemented by the Ministry of National Defence.

The audit period was 2023–2025. In order to assess trends and changes, in some cases we used data from previous years and from 2026. The audit was conducted in accordance with the International Standards of Supreme Audit Institutions³. The audit criteria, procedures performed and methods applied are described in more detail in Annex 2, “Audit Criteria, Procedures Carried Out and Methods Applied” (p. 60).

Key audit findings

There is a lack of essential prerequisites for the proper management of the rapidly increasing finances of the national defence system. There is a lack of adequate strategic planning; capability development plans, which should form the basis for planning the resource requirements for capability development, have not been updated; the structure of programmes is insufficiently optimised; and the monitoring of priority implementation is fragmented; there is a lack of a unified data management solution and control procedures for the finance and defence processes, which would ensure the consistent, efficient and effective use of appropriations.

Strategic management of the national defence system

1. Strategic planning decisions that influence the financial planning of the national defence system must reflect the country's changed security environment

- ✓ In 2025, NATO member states agreed to maintain defence spending at a minimum of 5 percent of GDP until 2035. In 2026, 5.38 percent of GDP is earmarked for the funding of the national defence system in Lithuania⁴, but this is not stipulated in any long-term planning document. In the absence of funding commitments at national level up to 2035, the continuity of funding cannot be guaranteed when planning defence requirements over the longer term (Section 1.1, p. 15).
- ✓ Following significant changes in the security environment, the National Security Strategy adopted in 2021 no longer reflects current defence priorities (e.g. the

¹ Regulations of the Ministry of National Defence, paragraph 2

² The Ministry of National Defence implements 9 programmes and has 10 programme coordinators (2 coordinators are assigned to the “MoND Personnel Training Programme”, given its specific nature).

³ ISSAI 3000 - Performance Audit Standard, available online at: <https://www.valstybeskontrolė.lt/LT/post/15649/>.

⁴ Law on the Approval of the 2026–2028 Budget of the Republic of Lithuania, Annex 10.

establishment of a national division, the deployment of a German brigade) and is not aligned with the lower-level planning documents implementing it. In the auditors' view, this has a negative impact on financial management. The review of the Strategy was initiated belatedly, with a working group being set up in 2025. The decision not to update it earlier was based on the assessment that the provisions of the Strategy were broadly in line with national security interests. A draft Seimas resolution amending the National Security Strategy was registered with the Seimas in February 2026 (Section 1.1, p. 17).

2. There is a lack of clarity regarding how efficient and smooth financial management processes within the national defence system are to be ensured following the declaration of a state of war or a state of emergency

- ✓ In the event of mobilisation, or during a state of war or a state of emergency, processes would be organised in accordance with the general requirements for the preparation of the draft budget within the national defence system, i.e. the same budget planning and financial accounting procedures would apply as in peacetime; however, this process is lengthy and multi-stage – it takes around one year and comprises 19 stages, of which 8 are carried out by the Ministry of National Defence, while the remaining 11 are carried out by the Ministry of Finance, the Office of the Government and the Seimas. This situation arises because the guidelines approved by the Ministry do not set out procedures for how the financial management of the national defence system will operate during wartime or a state of emergency but merely refer to the general requirements for the preparation of the draft budget within the national defence system. In times of war and states of emergency, more flexible and rapid processes are required, which must be defined to ensure the efficient planning, allocation, reallocation and accounting of resources (Section 1.2, p. 19).

3. There is a lack of traceability in the implementation of the national defence system's priorities

- ✓ Four priorities have been approved in the Programme for the Strengthening and Development of the National Defence System⁵, but there are no clear links to the Ministry's Strategic Activity Plan, which makes it difficult to assess the effectiveness of the implementation of long-term planning documents and the use of funds in accordance with the priorities. The Ministry states that nine programmes currently being implemented contribute to the achievement of these priorities; however, these programmes do not specify which specific measures, indicators and appropriations are allocated to each priority. This situation arises because the Ministry's Strategic Activity Plan does not provide for a structure for linking measures, indicators and allocations to each priority; consequently, the traceability of priority implementation is not ensured, and the assessment of results is hampered (Section 1.2, p. 21).

Planning and monitoring of the national defence system

⁵ Form a national division; have the host nation support infrastructure in place by 2027, suitable for hosting a German brigade; implement the principle of total defence; with a view to significantly increasing the number of citizens prepared for defence and accelerating the formation of the active reserve, adopt a decision on a gradual increase in the number of conscripts undertaking compulsory initial military service in accordance with national defence requirements.

4. The structure of the national defence system's programmes has a negative impact on financial planning and management, as well as on the achievement and monitoring of results

- ✓ In the Ministry of National Defence's Strategic Activity Plan for 2025–2027, some of the objectives and indicators set out in different programmes are duplicated: of the 22 objectives, 13 (59 percent) are repeated in 6–7 out of 9 programmes. Their implementation is measured by overlapping indicators – of the 41 indicators, 21 (51 percent) are repeated in 3–7 of the 9 programmes. This situation is determined by the structure of the national defence system's programmes, which is organised according to the Lithuanian Armed Forces' units rather than a functional model (military operations, maintenance, modernisation). Due to the fragmentation of objectives and indicators across different programmes, responsibility for the outcome of common objectives is divided amongst several programme coordinators, and the monitoring of the implementation of common objectives becomes fragmented (Section 2.1, p. 22).
- ✓ Between 2023 and 2025, the proportion of the national defence system's current-year budgets reallocated fell from 15.5 percent to 13 percent. The amount of reallocated appropriations rose from EUR 310.8 million in 2023 to EUR 440.9 million in 2025. These reallocations were driven by the fact that the national defence system's programmes comprise different activities: the operations, maintenance and development (modernisation) of the Lithuanian Armed Forces; consequently, the planning of appropriations at the start of the year does not always accurately reflect the financial requirements of specific activities. The reallocation of appropriations between programmes requires additional coordination and decision-making time (submission by the Defence Resources Group and approval by the Defence Resources Council). If programmes were structured not according to the Lithuanian Armed Forces' units or formations, this would create the conditions to reduce the number of reallocations between programmes and save time and human resources (Section 2.1, p. 24).
- ✓ There is a lack of alignment between the responsibilities and powers of programme coordinators when coordinating programme implementation and the use of appropriations. Seven out of ten programme coordinators within the national defence system are commanders of Lithuanian Armed Forces units or formations. They are responsible for the proper implementation of the objectives, tasks and measures of the programmes they coordinate, as well as for the use of the resources allocated to the programmes⁶. However, these programmes are also implemented by budgetary institutions that carry out centralised procurement and are not subordinate to the programme coordinators (e.g. the Defence Resources Agency, the Infrastructure Management Agency), and therefore the programme coordinators are also responsible for the utilisation of the appropriations of the institutions carrying out centralised procurement for the programmes they coordinate. This is determined by the structure of the national defence system's programmes, which is organised according to the Lithuanian Armed Forces' units and formations rather than a functional model (maintenance, operations and modernisation of the armed forces). We found that the Ministry's internal regulations do not provide for the programme coordinator's involvement in making procedural decisions on centralised procurement⁷. This has a

⁶ The Regulations on the Activities of the Programme Coordinator were approved by Order No. 140 of the Minister of National Defence dated 7 February 2001.

⁷ Programme coordinators do not have access to information on the progress of procurement procedures that have been initiated, do not take decisions on when to initiate centralised procurement procedures, and so on.

negative impact on ensuring the effectiveness and efficiency of programme implementation. In June 2026, the Ministry updated its review of the programme structure⁸ (Section 2.1, p. 25).

5. Despite an increase in funding for the national defence system in 2025, the target values for the army's modernisation indicators were not revised

- ✓ Funding allocated to the modernisation of the armed forces is rising rapidly: between 2023 and 2026, modernisation will account for more than 50 percent of the annual budget on average, and in 2026, funding for this purpose is projected to amount to approximately EUR 2.3 billion (an increase of more than EUR 1.2 billion compared with 2023), however, in the Programme for the Strengthening and Development of the National Defence System, the modernisation indicators and their target values have not been updated accordingly (the values for eight indicators have not been increased). Consequently, they no longer reflect the changed scale of funding and current needs, as they were drawn up on the basis of the long-term needs at that time, the organisational system and equipment tables (OSET), and the planned funding for the national defence system – 3 percent of GDP (4.04 percent of GDP has already been allocated for 2025).

On 22 April 2026, a draft amendment to the Programme for the Strengthening and Development of the National Defence System was registered in the Seimas, under which it is planned to fundamentally change the indicators and their values. We note that funding for the modernisation of the entire national defence system is monitored, but monitoring of the implementation of modernisation is limited, as it covers only part of the Lithuanian Armed Forces (Section 2.1, p. 28).

- ✓ For the period 2023–2025, appropriations for the development (modernisation) of the national defence system were planned in all nine programmes. In 2025, in 3 (out of 9) programmes, more than 50 percent of the total programme appropriations were allocated to modernisation (development), while in a further 3 programmes, funds earmarked for this purpose accounted for more than a third of the total programme appropriations⁹. These figures show that the appropriations allocated to modernisation (development) constitute a significant proportion of most programmes. Although funding for modernisation has been planned across all programmes, decision-makers do not have a consolidated overview of the total scale of appropriations allocated to this area or the results of their use. Furthermore, no overall funding is planned for this objective, nor are there any consistent and coordinated tasks or actions, and no individual has been appointed to be responsible for its implementation (Section 2.1, p. 29).

6. The monitoring of the implementation of the national defence system's priorities lacks consistency and a systematic approach

- ✓ Information on the implementation of the national defence system's priorities is gathered from several sources: the bodies responsible for carrying out the actions set out in the implementation plan for the Government Programme, and the monthly and annual reports of the Ministry's departments and national defence system institutions.

⁸ Information provided by the Ministry of National Defence by email on 8 June 2026.

⁹ Army – 78.49 percent, Air Force – 68.37 percent, logistics – 51.03 percent, Naval Forces – 38.45 percent, Special Operations Forces – 42.71 percent, training of national defence system personnel – 37.72 percent out of 9.

The information is not collated in a single location or in interconnected systems; it is stored in separate directories as different types of reports. Data on the fulfilment of indicators is entered into monitoring indicator information systems; information on financial planning and implementation is stored in the financial resource management system; and accounting information is stored in financial accounting information systems. Consequently, the integrity of the accumulated data and information is not ensured, and the status of the implementation of national defence system priorities – such as progress in the development of the national division – is not known in real time. A unified monitoring system would provide timely access to information on progress in implementing the national defence system’s priorities, which is necessary for decision-makers ([Section 2.2, p. 31](#)).

7. Non-automated execution of the defence planning (requirements and capabilities) process and data management

- ✓ Data on the national defence system’s priority requirements lists (2023–2026) is collected and organised in Excel files, in which the electronic document protection and/or locking functions are not used for the documents prepared. Defence planning data is managed manually by transferring it between different documents. This situation is due to the fact that no information system has been implemented for the collection and management of defence planning data (priority requirements and capabilities). The practice of using Excel that has developed within the Ministry of National Defence has not been reviewed as the scope of the process has grown, and therefore defence planning (priority needs and capabilities) and the management of its data in Excel files do not ensure sufficient data reliability, process efficiency or document security measures, and the risk of data errors is increasing ([Section 2.2, p. 34](#)).

Financial planning and expenditure for the national defence system

8. Long-term 10-year financial planning for the national defence system is calculated on the basis of assumptions made by the Ministry of National Defence

- ✓ In the National Defence System Planning Guide (2026–2035), long-term financial planning for the national defence system is calculated for the first 3 years based on forecasts by the Ministry of Finance, and for the remaining 7 years based on calculations and assumptions made by the Ministry. In 2025, the Government approved Lithuania’s medium-term fiscal structural plan, which sets out the projected GDP. The GDP growth rates given in these documents differ: for example, the Ministry’s forecast for 2031 is 2.6 percent, while the Government’s is 4.3 percent – a difference of more than 1.5 times. In the auditors’ view, long-term planning would be more reliable if it were guided by Lithuania’s medium-term fiscal structural plan ([Section 3.1, p. 36](#)).

9. The changing geopolitical environment and international commitments influence the priority needs of the Lithuanian Armed Forces

- ✓ The Lithuanian Armed Forces’ priority requirements must be formulated in accordance with the National Defence System’s capability development plans, which ensure their targeted and well-founded development and strengthening¹⁰, however, the priority

¹⁰ Ministry of National Defence Order No. V-800 of 20 September 2019 “On the Defence Planning Process and its Description” (as subsequently amended).

requirements have not been drawn up in accordance with the approved capability development plans, as 16 out of 23 (70 percent) of them have not been updated for between 4 and 14 years. For example, the priority requirements of the Land Forces have not been drawn up in accordance with the Land Forces Capability Development Plans approved in 2017 (Land Manoeuvre) and 2018 (Territorial Defence), but in accordance with decisions by the State Defence Council, the Ministry of National Defence and the Commander of the Lithuanian Armed Forces, as well as the organisational system and equipment tables (OSET). When determining requirements, it is important to take into account the changing security environment; however, it is also important to update the capability development plans, which ensure the targeted and well-founded development and strengthening of capabilities (Section 3.1, p. 38).

10. National defence institutions aim to plan their appropriations evenly; however, during the first to third quarters of 2025, 11 out of 14 institutions utilised between 39 and 86 percent of their planned appropriations

- ✓ During the period under audit, we have observed an improving trend, as according to the initial estimates, at the start of 2023, 3 (out of 14) institutions, and in 2024 and 2025, 1 (out of 14) institution each, had planned less than 65 percent of their total appropriations for the first three quarters of the year. As the defence budget grows, it is essential to continue ensuring the even planning of resources in the first quarters to avoid the concentration of appropriations and unnecessary payments at the end of the year (Section 3.2, p. 41).
- ✓ The utilisation rate of appropriations for the first three quarters of 2023–2025 fell by 13.4 percentage points (from 79.8 percent to 66.4 percent). Eleven out of 14 institutions within the national defence system utilised less than 90 percent of their planned appropriations during the first to third quarters of 2025: the actual expenditure of individual institutions ranged from 39.1 percent to 86.0 percent. According to the institutions, the lower utilisation rate was mainly due to protracted procurement procedures. The Ministry has established control procedures: the Defence Resources Group and the Defence Resources Council monitor the utilisation of appropriations throughout the year during their meetings and reallocate them where necessary. However, these procedures are insufficient to prevent potentially hasty and irrational decisions on the use of appropriations at the end of the year¹¹ (Section 3.2, p. 42).

11. Regulations on the control of advance payments exceeding 30 percent need to be improved

- ✓ Legislation permits advance payments exceeding 30 percent in the defence sector and provides for control by the Defence Resources Group. We found that in 8 (out of 10) cases, the approval of the aforementioned group was not obtained when applying exceptions. Legislation provides for insufficient control procedures regarding advance payments exceeding 30 percent for low-value contracts (up to EUR 70,000 excluding VAT) and in procurements carried out by the Second Department of Operational Services. This weakens internal controls designed to ensure that, in all cases, larger advance payments are made only where strictly justified (Section 3.2, p. 43).

¹¹ For example, on 10 December 2024, the Second Department of Operational Services transferred 100 percent advance payments – EUR 510.4 thousand (355.4 + 155.0) – for computer equipment; During a financial audit (Public Audit Report No. FAE-2 of 15 May 2026), the National Audit Office found that the Lithuanian Riflemen's Union made 88 advance payments in December 2025, 49 of which were made on the last day of the year, and upon checking 32 of these payments, shortcomings were identified in all of them.

12. The impact of increased funding on national defence personnel is positive

- ✓ NATO recommendations stipulate that no more than 50 per cent of the defence budget should be allocated to personnel costs. Although, in absolute terms, actual expenditure on personnel costs increased by 30.9 percent between 2023 and 2025, their share of the total defence budget fell from 32.1 percent to 24.7 percent. Lithuania complies with the NATO recommendation; however, in 2025, in terms of the budget share allocated to personnel, it was among the NATO member states allocating the lowest percentage (24th out of 32). The Ministry of National Defence assesses the funding requirements for personnel maintenance annually, and although these are not always fully met at the start of the year, appropriations are reallocated during the course of the year to ensure that the final requirements are met across all institutions of the national defence system (Section 3.3, p. 44).
- ✓ Staffing levels within the national defence system are improving, with the staffing rate for professional military personnel increasing by 3.4 percentage points (91.1 percent in 2023, 94.5 percent in 2025). However, the staffing levels set for 2023–2025 did not reach 100 percent across all personnel categories. Personnel thresholds are set by law and in the plan (up to 2030)¹², but the requirement for junior officers has not been established, resulting in a lack of greater detail and consistency in personnel and financial planning (Section 3.3, p. 45).
- ✓ The allocation of the Ministry of National Defence’s appropriations is based on the principles of budgetary balance and an anticipated annual increase of around 5 percent in personnel costs. The actual increase in personnel costs in 2023–2025 significantly exceeded the planned figure (for example, in the Lithuanian Armed Forces, the increase in 2025 compared with 2024 was 17.5 percent). In the institutions of the national defence system, average wages rose by 16 percent on average between 2023 and 2025, whilst in the public sector they rose by 23 percent; however, average salaries in the national defence system were higher than the overall public sector average. We found that significant pay disparities remained between institutions within the national defence system (in 2025, the difference exceeded EUR 2,000), with pay in 5 (out of 14) institutions being lower than the overall average for the system. In the national defence system, managers account for around 16 percent of the total workforce, which is twice as high as in the public (8 percent) and private (11 percent) sectors; however, this is justified by the specific nature of the system’s operations and structure. We also found that the proportion of women in managerial positions is low (12 percent), although it has increased by 1 percentage point compared with 2023, whereas in 2025, women accounted for 61 percent of female managers in the public sector and 33 percent in the private sector. Increasing women’s participation in decision-making and leadership roles within the national defence system is in line with the strategic direction of NATO’s 2024 policy on women, peace and security,¹³ (Section 3.3, p. 46).

¹² The Law of the Republic of Lithuania on the Approval of the Basic Structure of the Armed Forces, the Maximum Number of Soldiers and Employees of the Lithuanian Armed Forces Working under Employment Contracts and Receiving Remuneration from the State Budget and State Funds ([version in force from 1 January 2026](#)); [The Personnel Development Plan for the National Defence System of the Republic of Lithuania for 2024–2030](#), approved by Government Resolution No. 791 of 18 September 2024.

¹³ NATO’s “Women, Peace and Security” Policy Strategic Direction 2024. Available online: [NATO Policy on Women, Peace and Security \(2024\) | NATO Official text](#) (accessed 30 April 2026).

Recommendations

To the Ministry of National Defence

1. In order to implement all national capability development plans and commitments to NATO, the document at the national/strategic planning level should provide for funding for the national defence system of at least 5 percent of GDP by 2035 (key audit finding 1).
2. To ensure the traceability and evaluation of the implementation of national defence system priorities, the Ministry's Strategic Activity Plan should set out measures, indicator values and allocations for each priority relating to the strengthening and development of the national defence system (key audit finding 3).
3. In order to create the conditions for ensuring the efficient and smooth financial management of the national defence system, processes should be established to govern how the financial management of the national defence system will operate during wartime or a state of emergency (key audit finding 2).
4. In order to create the conditions for the proper allocation of responsibilities and the monitoring of the overall results achieved by the national defence system, the structure of the national defence system's programmes should be revised: the number of programmes should be optimised, with programmes organised according to a functional model (operations, maintenance, modernisation) (key audit findings 4 and 5).
5. In order to facilitate more efficient financial and defence planning processes, move away from Excel solutions towards a unified data management solution (key audit finding 7).
6. To ensure that the long-term funding assumptions for the national defence system are based on a national-level financial forecast document, calculate the national defence system's long-term 10-year financial plan in accordance with Lithuania's medium-term fiscal structural plan (key audit finding 8).
7. In order to identify the current resource requirements for capability development in a changing security environment, update capability development plans in line with the national defence system's development priorities (key audit finding 9).
8. To ensure a more even utilisation of appropriations throughout the financial year, establish additional internal control procedures (Key Audit Finding No. 10).
9. To facilitate more reliable financial management, regulate additional control procedures in internal legislation concerning low-value procurements and all advance payments by the Second Department of Operational Services exceeding 30 percent (key audit finding 11).
10. To ensure sound planning of professional military personnel across all categories, the target number of junior officers should be established (key audit finding 12).

The measures and deadlines for implementing the recommendations, the expected impact of the audit and the indicators for assessing changes are set out in the section of the report entitled "Plan for the Implementation of Recommendations" (p. 53). Up-to-date information on the status of implementation of the recommendations, the results and the changes that

have taken place is published in the open data section of the National Audit Office's website at <https://www.valstybeskontrole.lt/LT/AtviriDuomenys>.